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Annual Financial Issue

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Hard Money vs. Productive Investment in the '80s

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- Harry Browne
- Howard Ruff
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- Walter Perschke
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At last — a way to keep your hidden assets safely hidden.

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Attics, bureau drawers, laundry hampers, the backs of paintings hollowed out books, fake wall plugs — all are easy pickings to the practiced thief.

Worst of all, perhaps, is the so-called "safe". An archaic device of hinges, steel, and tumblers that shouts like a billboard, "Here it is! Here's the money, the precious metals, the jewels, the stocks and bonds! Open me if you can!"

And they can! Just read your daily newspaper. Home safes, office safes, safes in stores and even banks open wide before the relentless tide of plunderers who find it so much simpler to steal what's yours rather than earn their own.

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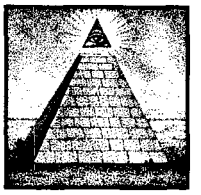

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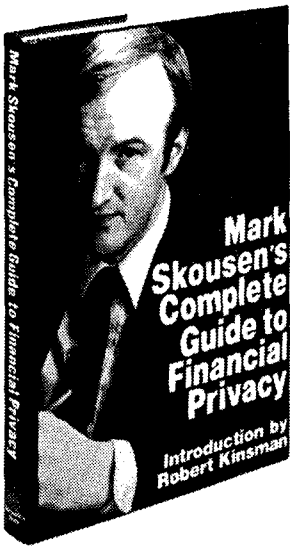

HOW TO MAKE YOURSELF INVISIBLE TO THE I.R.S.

A Message from Mark Skousen

Three years ago I met a field auditor with the Internal Revenue Service. At social gatherings, when the talk got around to the mess in Washington and everyone's gripes about the government, he would interrupt with, "Now what did you say your social security number is?"

He was joking—or so he said. But his words set me thinking. *If the government can catch me with a number, then the power to tax is indeed the power to destroy.*

I began to study the situation. I was appalled to discover how much the government and business groups could find out about my personal and financial affairs *without me even knowing it.*

But I also learned that there were steps I could take—perfectly legal steps—to keep the snoops out of my life.

Then, as I got deeper into the problem, I realized that other men and women were troubled too. They were angry, but they felt helpless to do anything about it. When I told them the simple steps they could take, for example, to protect their social security number most of them just wouldn't believe me, until I actually proved it. One friend suspected his boss was spying on him. I showed him a free, easy way to find out whether his office phone was bugged. A friend of my wife's was having trouble with her husband. He was living beyond their means, spending their savings on heaven knows whom. I was able to show her how to store her valuables safely, outside her home and her safe deposit box.

But one thing I learned after three years of research. *Nobody had ever written a book about how I could protect my privacy.* It seemed that everybody was afraid of what the government would do to him.

Well, I don't consider myself a hero, but I decided to take on this project myself. After all, I am not doing anything illegal—or recommending anything illegal. My book is not for criminals. (They already know all the illegal methods.) It is for concerned citizens who *don't* want to break the law, but want to do everything possible to keep the government, business competitors, or prying relatives out of their private lives and their financial affairs.

My publisher calls the book **Mark Skousen's Complete Guide to Financial Privacy.** If secrecy, financial and otherwise, is one of your concerns, I'm certain my book will help you, in dozens of ways. For example:

1. 5 reasons why you need financial privacy now.
2. How to make sure your larger checks are *not* available to the government.
3. Treasury rules on foreign bank accounts: 5 promising *legal* loopholes.
4. 2 little-known tricks for preserving privacy even with a listed phone number.
5. How to learn what data a credit bureau is furnishing about you.
6. 2 ways to get a sizable loan without collateral and without revealing the purpose of the loan.
7. Risks you should *not* take to maintain privacy.
8. How to mail money out of the country anonymously.
9. The 10 best ways to hide your valuables.
10. You *can* avoid probate, and the harmful publicity that goes along with it.
11. The terrible powers of the IRS.
12. Sample contract to assure bank privacy.
13. The benefits of a (perfectly legal) fictitious company checking account.
14. The 6 best tax havens. Advantages and disadvantages of each. 6 common reasons for using a tax haven.
15. How to use money orders, cashier's checks and travelers checks to enhance privacy. How to avoid the pitfalls.
16. How the post office can monitor your mail.
17. IRS devices to learn more about you.
18. The joys of a diplomatic passport. 3 ways a nondiplomat may get one.
19. Mexican banks: there's privacy, but also risks.
20. Advantages of foreign accounts even where there is no secrecy.
21. Project Haven, and the illegal behavior of IRS agents.
22. Money couriers: many work for the underworld, but some don't.
23. U.S. and Nazi tax laws: one disturbing similarity.
24. An expert's rundown on alarms and security devices.
25. Advantages—and risks—of a second passport.
26. The positive side of the so-called Bank Secrecy Act.
27. Ways *anyone* can spy on you—legally!
28. Swiss banks: still secret, in most circumstances. The 35 crimes that allow the Swiss to reveal bank secrets. Large and small Swiss banks—which are better?
29. 2 legal ways to take a large sum out of the country *without* reporting it.
30. 3 ideal investments for maintaining privacy.
31. Your investments: those that get reported to the IRS; those that are *not* reported.
32. 24 steps to financial and personal privacy—a summary.
33. 24 tips to help you avoid a tax audit.

Yes, my book *can* help, in countless ways. Proof: send for it. If you don't agree, my publisher will give you your money back.

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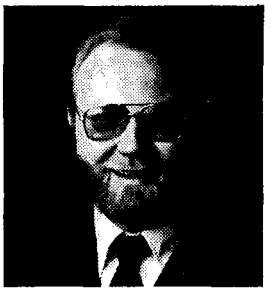
You've seen the high profits in rare coins...now find out how to make them yours!

If you're persuaded by results, you'll want to know how you can get involved in rare coin investment. The rare coin market has outperformed all other hard money investments for the past ten years and offers greater liquidity than any other collectible area. But it does require that you either develop a working knowledge of the field or find an expert you can trust.

If you're already familiar with the dramatic appreciations in rare coins and want to know how you can achieve those profits for yourself, you should be reading the **NUMISCO LETTER.** If you want to minimize your risk and maximize your gains, you can't afford to be without the ***NUMISCO LETTER's*** *original research,* specific buy and sell recommendations, and how-to advice written especially for investors.



The **NUMISCO LETTER** is written by Walter Perschke, *a man whose numismatic credentials are matched only by his ability to convert his knowledge into profits for himself and his subscribers—sophisticate and novice alike.* For more than sixteen years, he has bought, sold and researched rare coins from an investment point of view, long before such an approach was popular.

Walter really can't be considered a collector, in spite of his 1979 auction purchase of the famed Brasher doubloon for $430,000—at that time a world record price for any coin. In interviews after the event, he described this as a "bargain," and he looked rather shrewd when, only four months later, a second example in comparable condition was sold at auction to an anonymous collector for $725,000.

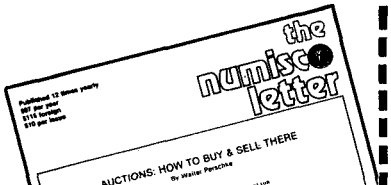
Walter isn't ready to sell yet, but his subscribers can be assured that when the time comes to sell **their** coins, *he will be the first to advise them to take profits.* Unlike many of its competitors, the **NUMISCO LETTER** reviews previous selections and makes sell recommendations where appropriate. In 1980, subscribers took profits **averaging 563%** on five previous recommendations which had been held for two to four years. The **per annum** increases of these five coins averaged an impressive **96%.**

Not only does Walter take profits on bull moves, but he isn't shy about reporting the corrections either. *His numismatic indexes enable subscribers to monitor general trends,* and he makes specific recommendations about which issues present buying and selling opportunities. Perhaps it is this objectivity and Walter's ability to put the rare coin market into the context of the *economy as a whole that have made him a popular* speaker at investment seminars and a frequent contributor to many publications. And when **Wall Street Week,** one of public television's most popular shows, selected its first expert on rare coin investment *as a special guest last December,* Walter Perschke explained the basics to its ten million viewers.

Subscribers to the **NUMISCO LETTER** get more than the basics. **For as little as $8 a month,** you can receive the expert advice that will put the numismatic profits of the 1980s in **your** pocket:

- BUY RECOMMENDATIONS, including "Budget Buys" priced at less than $300;
- SELL RECOMMENDATIONS to ensure that you realize profits on your portfolio;
- HOW-TO ARTICLES to make you a more sophisticated numismatic investor;
- GOLD AND SILVER BULLION FORECASTS identifying profit opportunities at major turns in the market;
- SPECIAL FEATURES like tax advice for coin investors, seminar and auction reports, book reviews, occasional interviews with noted experts, and much more...

If you act on just **one** of Walter's recommendations, it could well repay your investment in a *subscription—and more!* Let the **NUMISCO LETTER's** original research and years of market experience bring you profits! Mail your bonus coupon **today!**



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You have everything to gain and nothing to lose with our *MONEY BACK GUARANTEE:* If you are not completely satisfied after reading three issues, you can receive a prorated refund, and the bonus gift, "AUCTIONS: HOW TO BUY AND SELL THERE," is yours to keep.

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Free minds and free markets

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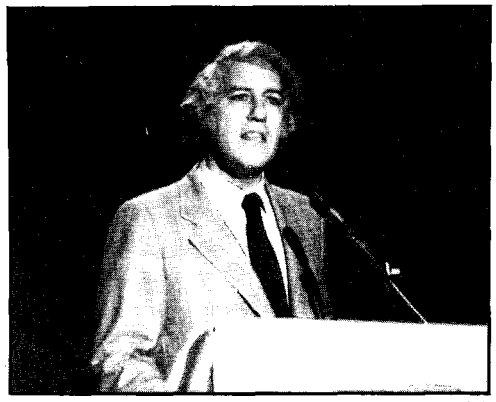

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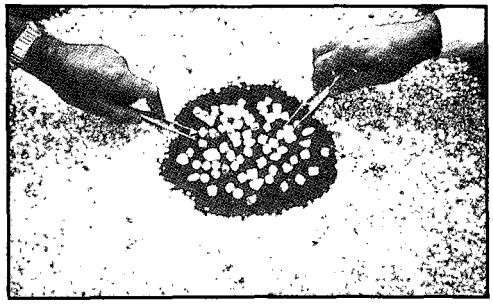

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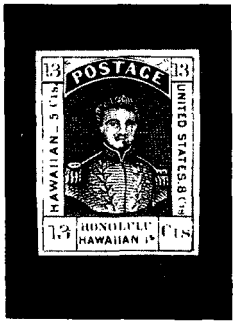

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Unique New Newsletter Helps Investors Find Most Profitable Strategy

"The Hot Hand Theory of Investing"

A unique new publication should help investors solve one of the most vexing problems they face—how to sort through dozens of different investment strategies and find one that pays off.

The publication is called the *Hulbert Financial Digest.* Its editor, Mark Hulbert, drawing upon an Oxford University education, has refined what he calls the "hot hand" theory of investing. It is straightforward. It is objective. It works.

The "hot hand" theory is based upon this simple observation: markets run in cycles. Some observers will see and understand the cycle. Most will not.

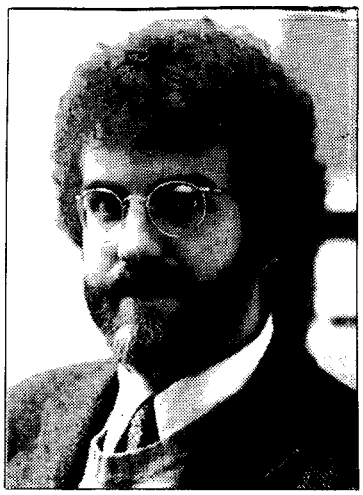
The trick is not to try to outguess the market yourself—few people have the time or the information to even begin to identify the complex forces at work. That goes for stocks, interest rates, precious metals—anything. Instead focus on the different *strategies* put forward by professional investment advisors.

At any given time, a few advisors will recognize—whether by luck or insight, it doesn't matter—genuine market cycles. These advisors will be playing a "hot hand" which could last anywhere from a few weeks to many months. The challenge for the astute investor is to spot the winning strategies and go with them until they play themselves out.

Mr. Hulbert has devised a means to help the investor do so.

Actual Dollar Figures

The *Hulbert Financial Digest* follows more than 30 different investment portfolios. These include portfolios recommended by such well known analysts as Jim Dines, Howard Ruff, Harry Browne, Joe Granville, Martiz Zweig, T.J. Holt, and many others. In addition, many lesser-known (but often more profitable) advisors are followed regularly. By tracking the portfolios on computer and tallying the results monthly, Mr. Hulbert provides *actual dollar figures for the value of the advice given.*



Mark Hulbert

This allows you to judge for yourself the quality of the advice you are following and select the most profitable investment strategy. In short, the *Hulbert Financial Digest* helps you find and follow the "hot hand" among many different investment advisories.

Not only does it help you spot the winners, it also helps you avoid the losers, thus taking some of the risk out of your portfolio while improving its overall performance.

How much do you stand to gain from Mr. Hulbert's information? Plenty. During the last six months of 1980, for example, one of the portfolios tracked by the HFD showed a gain at an annual rate of 160%! By identifying the "hot hand" early, investors were able to realize gains averaging 14% *per month* as long as the cycle continued.

On the other hand, the *Hulbert Financial Digest* revealed that some investors were following advice which was losing them as much as half their portfolios in a single year.

Saves Time As Well As Money

In addition to the financial gain, you'll be able to save a substantial amount of time using Mr. Hulbert's unique service. The *Hulbert Financial Digest* reviews and analyzes the market advice and predictions contained in dozens of the world's foremost advisory newsletters. In just a few minutes each month, you can find out who is saying what . . . and find out who's advice is really paying off.

Special Half-Price Subscription Offer

While the *Hulbert Financial Digest* is still in its first year of publication, investors are invited to take advantage of a special *half-price* offer. The *Hulbert Financial Digest* normally costs $135 annually (12 issues). But if you subscirbe now, you may do so at half-price, just $67.50. What's more, you'll get your first issue FREE. You'll get 13 issues in all for just $67.50.

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The Case for Gold

Gold prices are now like coiled springs being compressed. The more they're pushed down, the less it takes to release them—and the faster and further they'll spring up.

The overwhelming majority of market opinion is now bearish on gold.

Business Week, for instance, notes that "the budget cuts Stockman is outlining are nothing short of startling," and gloatingly headlined an article: "Gold leaves a trail of battered investors."

Paine Webber, a major establishment-oriented broker says, "Technically, precious metals futures are in a well-entrenched downtrend. Moreover, the fundamental setting offers little encouragement."

Time credits "Reagan euphoria and high interest rates" plus a lessening of international tensions with making gold "lurch lower."

Even among hard-core silver and gold buffs, nearly everyone has turned bearish. For example:

- **Howard Ruff** *(Ruff Times)* now says gold "is on its way to below $400, probably before summer."
- **Charles Stahl** *(Green's Commodity Market Comments)* says, "We are still in a bear market, and the bear market still has a long way to go. We would not think of trading gold from the long side until such time as the $380-$420 level is reached."
- **Robert Kephart's** *Personal Finance* sees a "bearish gold outlook" with "silver also down."
- **Harry Schultz** *(International Harry Schultz Letter)* says, "Very low numbers are possible... perhaps $350 or $400."

Yet, the *Silver & Gold Report* is now turning bullish. Indeed, the most bullish we've been since late May 1979, when we headlined our issue: *The stage is set for the big runup.*

In our recent in-depth analysis of Reagan's program and the silver and gold markets, we lay out the reasons why. We analyze the 3 powerful forces now exerting strong upward pressure on silver and gold prices.

In addition, the analysis shows:

- ✓ The fatal mistake that Reagan is making in his economic "recovery" program. The prospects of his correcting it before it's too late.
- ✓ A little-known aspect of the Polish crisis that could trigger a banking crisis in the West.
- ✓ Why Russia is affecting the silver market differently than the gold market.
- ✓ The *bearish* factors now acting on the silver and gold markets.
- ✓ How to time your silver and gold investments.
- ✓ Two investment strategies: One for traders, the other for long-term investors. These strategies can help you maximize your profits if we're right and minimize your exposure if we're wrong.

Special Introductory Offer

A full copy of our special report, **"SGR bucks the tide—turns bullish on silver and gold"** is yours as a *free bonus* when you subscribe to the *Silver & Gold Report.* A 3-month (6-issue) Introductory Subscription is just $15. As a second bonus, take any one of these recent issues.

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editor's notes

To those of you reading your first issue of REASON, a word of explanation is in order. As it says on the cover, this is a "special financial issue"—something we've been doing once a year since 1974. That original issue offered ideas on such radical moves as buying gold (which sold for under $150 an ounce and was then *illegal* to own, unless you went through the fiction of being a coin collector) and silver (then selling for just under $4 an ounce). People responded enthusiastically to the idea of somewhat unconventional advice on protecting themselves from government-created inflation. And thus we ended up with a tradition of devoting one issue each year to this theme. I hope you find it interesting and useful. If not, stick around—we'll be back to our usual investigative reporting and analysis and commentary next month.

Publicity over our Love Canal exposé continues to grow. On March 18 author Eric Zuesse appeared on the Larry King radio show in Washington—the nation's number-one syndicated talk show, heard all over the country. One of those who heard the show was Ted Koppel, host of ABC News *Nightline*. Impressed, he contacted Zuesse and during the next week did location filming for a half-hour show on the true story of Love Canal. Originally scheduled to air March 30 or 31, it was postponed because of media coverage of the Reagan assassination attempt. Meanwhile, on March 21, the Hamilton, Ontario *Spectator* (circulation: 200,000) reprinted REASON's story. *Discover* magazine devoted a page of its April issue to our findings. And the *Detroit News* in an editorial and *National Review* in a news item pointed to REASON's coverage of Love Canal.

REASON people really do get around. Long-time contributor Bruce Bartlett, who has previously worked for Rep. Jack Kemp and Sen. Roger Jepsen, has now become deputy director of the Joint Economic Committee of Congress. His book *Reaganomics* has just been published by Arlington House. Health & Welfare columnist Durk Pearson was recently interviewed on the Jim White show on KMOX, the CBS radio affiliate in St. Louis. Durk's and Sandy Shaw's book, *Life Extension: A Practical Scientific Approach*, is due out in June from Warner Books. Senior Editor Tibor Machan recently returned from Guatemala, where he delivered a series of lectures at the free-market-oriented Universidad Francisco Marroquin. And on my recent trip to Boston I made a number of appearances to explain how the ideas in my book, *Cutting Back City Hall*, could help local governments in Massachusetts cope with the revenue cutbacks of Proposition 2½. I spent a very enjoyable two hours on contributing editor David Brudnoy's top-rated radio talk show.

Here's another follow-up to our data privacy article (Jan.). Cryptography researchers at MIT are quite concerned about the recommendations of the Public Cryptography Study Group. MIT provost Francis Low told *Science* (March 13) that even so-called voluntary prior restraints on publishing research papers "pose serious problems for universities and for society in general....The prior restraints will impede what we do and will not succeed in keeping secrets." Amplifying on the latter point, Low said, "My impression of cryptography is that the cat is already out of the bag. All you would gain by secrecy is one or two years of lead time in proliferation. What you would lose is commercial dissemination in a society that is rapidly becoming more computerized." Which was precisely the point of our article.

Who says politicians can't learn? Listen to New York Mayor Ed Koch, formerly a big-spending liberal member of Congress: "There is no question that there is a decided difference in what I did as a Congressman and what I am doing as mayor when it comes to spending money. It isn't a difference in philosophy. *It is that I didn't understand what I was doing when I was in Congress, because in Congress you spend other people's money.* In Congress you are not aware of the cost of the programs because either the federal government is spending it and they print the dollars or, worse, you impose the cost on the cities. You just tell them what to do but you don't give them the money to do it. So now I'm an executive. I look at what has to be done and I say to myself, *how could I have voted for those dumb programs?*" (*Wall Street Journal*, Mar. 10).

—R. P.

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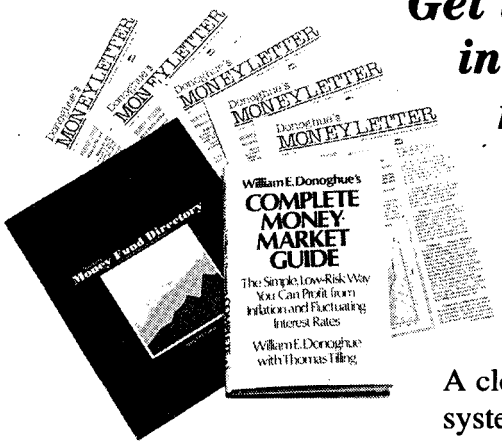
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THE TRUTH ABOUT RARE COINS

By Les Fox

President, Carson City Associates, Inc.

Just because you know that the Krugerrand contains a Troy Ounce of Gold, or that a bag of Silver coins has roughly 720 ounces of Silver, don't assume you know everything about investing in coins. If you do, you don't need our monthly newsletter.

Or maybe you're not even interested in rare coin investment because you've "heard" that only "bullion" coins can be spent when The Great Crash hits.

Well, I'm here to remind you that no one really knows if or when the American Economic System will fall apart. Dr. Franz Pick has been predicting "a new currency within 12 to 24 months" for quite a while now. And did you know that many Swiss citizens are buying real estate is South Florida in case the Russians get too close for comfort? The truth is, no place is 100% safe, and nothing in life is "Guaranteed". Especially not an American dictatorship.

Let me make an important point here. I believe in Gold and Silver as the only real money, and I am certainly not trying to discourage you from being prepared for a disaster.

All I am saying is that it makes sense to consider diversification of your investment funds. Especially when The Great Crash may never come (hopefully), but serious inflation is here to stay.

WHO IS LES FOX?

Les Fox, 34, is considered to be America's #1 Rare Coin Expert. A Pro-Free Market thinker, he has written several articles as Guest Editor of Personal Finance/Inflation Survival Letter and The Coin Dealer Newsletter. Since 1977, his specific public predictions have proven extremely accurate and profitable.

Les and Sue Fox are co-authors of the amazingly prophetic book "Silver Dollar Fortune-Telling" which has sold over 53,000 copies to date. In 1980, Les founded the unique Numismatic Legal Referral Service (his Executive Director is a college professor of law) to assist coin collector/investors in taking appropriate action against coin rip-off schemes.

From 1973 to 1976, Les Fox was Numismatic Director of the Rockefeller Center office of Deak-Perera, America's oldest and largest foreign money exchange firm. He has had personal dealings with Jim Blanchard, Harry Browne, James Dines and other hard money advocates.

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Now, assuming that you are interested in at least exploring the possibilities of rare coin investment, the next question is: "How can you invest in the right coins at the right price?" That's my department. And our newsletter "The Fortune-Teller" is the answer.

First of all, if you think you can just walk into your local coin shop and purchase quality coins for investment, don't bet on it. The same is true for attending a coin show or browsing through the ads in a coin newspaper or magazine. Despite all the "reliable" dealers who promise you "accurately graded" coins and "professionally selected investment portfolios", the fact is you can instantly lose 25% - 75% of your money on a single uneducated purchase.

How about trusting ads in The New York Times or The Wall Street Journal? You must be kidding! During the past year we have exposed a number of misleading rare coin offers and outright phony investment schemes in these and other "reputable" publications. (Needless to say, we don't get very much news coverage.) Believe it or not, advertising is still one area of the market where freedom reigns supreme. Anyone can advertise just about anything as an investment with very little chance of being censored by the publication or restrained by a so-called "government protection agency". You don't believe it? Our newsletter will convince you.

Yes, we do support and defend Freedom Of The Press. It just that many people are under the false impression that major publications somehow endorse or approve advertised offers. They do not! So you owe it to yourself to learn the truth about what you are buying. This is what you'll find in our newsletters and books.

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Straight Thinking about Guns

editorial

"EVERY DAY 137 AMERICANS ARE KILLED by this device. There are some 100 million of them in private hands. Virtually anyone—ex-cons, the emotionally unstable, alcoholics—can buy a used one in any neighborhood in the country. This carnage must stop. The 'freedoms' of our anachronistic American individualism must give way to the larger communal claim to sanity and safety." So saying, Sen. Edward Kennerly introduced his bill to ban private automobiles.

This speech, of course, is fiction. But the core of its argument has been heard across the length and breadth of America in the aftermath of the attempt on President Reagan's life. "It's time to ban handguns," editorialized *Time* magazine. Echoing this call were the *New Republic*, the *Nation*, and all right-thinking liberals everywhere. CBS's *60 Minutes* even devoted its entire April 5 program to the gun control issue, with Mr. Nice Guy Morley Safer stepping outside his role as moderator to take the side of gun control.

In considering this issue it is vital not to get bogged down in irrelevancies, as both sides are prone to do. It is probably true, as the gun controllers maintain, that widespread availability of handguns makes it easier for people to kill other people, whether by premeditation (as in assassinations) or in the heat of passion. A handgun is concealable; it is anonymous; it can be used at a distance; and the act is over in a second—all advantages over knives and axes. That ease of use probably does mean that the number of killings is higher than if handguns were banned—even if that ban were far from completely effective, as proponents concede would be the case.

There are several other matters that are simply not worth arguing about. It is absurd to make an issue out of banning Saturday Night Specials. Banning only cheap handguns is the rankest form of discrimination against the poor—the very people who are most often the victims of crime and most in need of self-defense. Those against handguns should have the courage to state their real objective: a total ban on and confiscation of existing handguns.

It is irrelevant, too, for either side to talk about hunting and target shooting as rationales for gun ownership, as the National Rifle Association tends to do. Admit it: the purpose of handguns *is* to kill people—that's the whole point of self-defense, and self-defense is what handgun ownership is all about.

Finally, it is absurd for gun controllers to claim that the Second Amendment does not provide a constitutional protection for handgun ownership. "A well-regulated militia being necessary to the security of a free state, the right to keep and bear arms shall not be infringed," reads the amendment. Contrary to the gun controllers' claims this language does *not* mean that only the National Guard or other government bodies may possess firearms. The "militia" referred to by the Founding Fathers meant every able-bodied male in the community—the volunteer defenders of the home front. The essential political truth of the Second Amendment is that the ultimate guardian of the citizens' liberties against tyranny, the bedrock of "the security of a free state," is an armed populace—a point of which the people of Poland, for example, are painfully aware.

What amazes me about the gun control debate is how much liberty the advocates of a handgun ban are willing to give up to purchase increased safety. "A certain percentage of citizens who engage in action A can be expected to harm others," they're saying. "Therefore, everyone must be prevented from engaging in A." This is precisely the same reasoning that lies behind such crime-control proposals as stop-and-frisk laws, preventive detention, and warrantless searches. (Or our imaginary proposal to ban private automobiles.) Yet most gun controllers, as good liberals, are—properly—aghast at such proposals. One wag of my acquaintance has even suggested that, since black males between the ages of 17 and 24 commit such a high percentage of all crimes, the way to cut crime is to lock them all up until they turn 25. You're outraged—but exactly the same logic is at work in the argument to ban handguns. It is very difficult to accept the seriousness of liberals' concern for civil liberties when it tends always, in less obvious cases, to stop short of being extended to people who evidently have not committed any crime. And it doesn't take long for people to see the strangeness of persistently defending the civil liberties of accused criminals while systematically overlooking the same issues in the case of citizens who are under no suspicion of having harmed anyone.

A ban on handguns is wrong because it violates not merely the Second Amendment but also the basic civil right to the presumption of innocence. This liberal standard of justice prohibits punitive, penalizing, and liberty-restricting actions toward those who are innocent of violating others' rights. Since the purchase and ownership of a handgun is not a violent, rights-violating action, it should be accorded the same legal protection as are other peaceable voluntary pursuits. Arguments over relative homicide rates, enforceability, or anything else are simply beside the point.

Are we, then, doomed to remain a violent society? According to *Time*, "the rest of the planet" is appalled and puzzled by American lawlessness, which the magazine attributes to widespread gun ownership. That is nothing but sophistry. Britain and Japan, with strict gun control, do indeed have much lower homicide rates than we do. But what of Switzerland, where every able-bodied male keeps a weapon at home—a pistol, rifle, or submachine gun—as part of his militia responsibilities, and where the homicide rate is even lower than in Britain or Japan? Clearly, violence is a function of many factors, only one of which is the availability of guns.

Two hundred years ago Benjamin Franklin wrote the following: "They that can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety." For many people, the attempt on the president's life was a dramatic indication of the declining level of safety in our society. Why that's happening is one matter. How we respond to it will show what we deserve.

Robert Poole, Jr.

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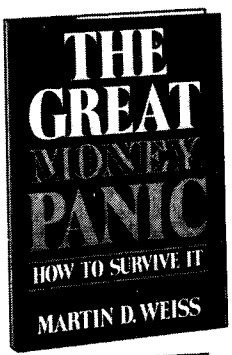

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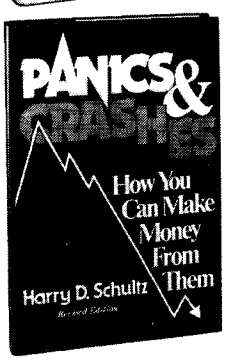

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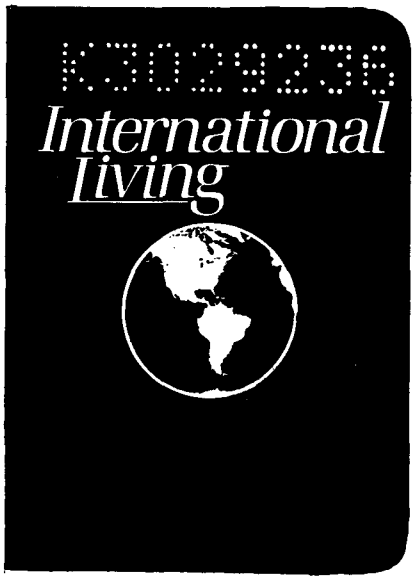

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letters

Alerting the Public

Congratulations on publishing "Love Canal: The Truth Seeps Out" (Feb.). I come from the Buffalo area and have been aware of the *real* scandal—the refusal of the EPA, state, local, and federal government to do anything for the stricken residents of the Love Canal neighborhood in favor of filing a spurious suit against Hooker Chemical—for some time now. Nearly everyone who has bothered to look at the public record is aware of the efforts made by Hooker to head off the tragedy and of the timely and strenuous warnings Hooker made. Nor are residents of the area unaware of the negligence of the Niagara School Board in this matter. Like the author, I was enraged by the spate of books, articles, and public comment in the media and by public officials which misrepresented the circumstances under which this dismal affair occurred. Like the author, I sought to alert the public with a number of letters to major newspapers and magazines; I, however, was unable to get a single one of them into print.

Scott Garretson
St. Louis, MO

Some Thoughts for Machan

Thank you for publishing "Some Thoughts for the New President" by Tibor R. Machan (Mar.). I always enjoy his writing. I often feel frustrated because I cannot express my position on some issue or other with the clarity and conciseness that I would like. When Mr. Machan writes on the issue, my frustration is gone because as soon as I read his words, I realize "That's it, that's the way I want to put it." Thanks again.

John G. Tietz
Hamilton, MT

Our Mistake . . .

We noted in your Coming Attractions in the April REASON that you listed an article on DMSO written by "science writers Durk Pearson and Sandy Shaw." We would like to correct this designation which could easily be misunderstood. We are both research scientists. The science writing that we do is strictly secondary to and derived from our research work. Calling us science writers is like calling Carl Sagan a television performer, rather than an astronomer. We do not want to be described as science writers (most of whom are *not* scientists), but rather as research scientists.

Durk Pearson and Sandy Shaw
Research Scientists
Palos Verdes Estates, CA

Immigration Proposal

To me the unique and powerfully attractive attribute of libertarian thought is its *consistent* application of the ideal of individual freedom; indeed it is this that so sharply distinguishes it from mere free-market conservatism, on the one hand, and mere pot-smoking liberalism, on the other. It was therefore disappointing to read David Rees's article on immigration (Mar.). His initially attractive idea of a free market in passports seems to me a nonsolution to a nonproblem. The real injustice is not simply that immigrant visas are costly or difficult to acquire, but that they have to be acquired *at all*; that human beings are being prevented, by border police paid out of funds confiscated from other human beings, from living and working wheresoever they wish. The real problem is a radical denial of personal freedom, and Rees's scheme does nothing to solve it.

If I understand it right his rationale is that the US immigrant acquires certain assets (roads, drains, social systems) he did nothing to earn. But neither did a baby born 50 yards north of the Mexican border; yet one born the same day 100 yards further south will later be turned back from these assets by a well-armed goon squad.

I suggest a more truly libertarian approach would: 1) correctly identify the problem as another instance of oppression of the individual by the State; 2) solve it immediately by scrapping all controls on immigration and by abolishing the INS; 3) repeal all laws concerning wages; and, 4) abolish all government welfare for the unemployed. The resulting initial flood of foreigners will rapidly run dry when word from them gets back that the demand for workers with no skill and little English yields under $1 an

hour, which buys no more than their income prior to emigration; and that there is no government unemployment welfare; and that the best that can be obtained from the many private charities is a bus ticket to the nearest border crossing. The few who do stay will enrich this free country by their hard work and determination to make good as much then as they did a century ago.

A. J. Davies
Ridgefield, CT

Political Passports

David J. Rees's article (Mar.) attempts to present a solution to the immigration problem but fails because Rees never defines the real problem. The real problem with immigration is the desire of the State to control individuals. Unless this is addressed *and* challenged all solutions will only be reforms and sanctions of existing bad systems. Rees's failure to acknowledge the rights of individuals results in a notion that the State bestows rights, privileges, and social assets (!) upon its subjects, and it does this by awarding small booklets known as passports. If Rees had defined immigration in an individual rights context he would recognize that passports are really nothing but useless political paraphernalia used by the State to intimidate its subjects.

Rees's scheme fails not only as a moral solution, it fails as a practical solution. It promises us a whole new bureaucracy to handle this nonsolution. We would now have to endure time daters and more tax collectors! As a result, the political society we are already saddled with would grow larger.

If Rees truly desires a caring and thoughtful solution to the immigration problem, he should ensure that individual rights are central to the solution and that the State is always challenged over its "right" to control the mobility of individuals. The only innovative solution to the immigration problem is to call for open borders internationally.

Linda Freeman
Santa Ana, CA

Saccharin Surprise

I naturally was attracted to the article "Supreme Court Overturns Saccharin Ban" (Mar.); I had not heard of this ban. My first reaction was to call a number of my clients to make them aware of this decision. Though I was puzzled by the dates and the people mentioned, they were completely overshadowed in my mind by the spectacular, surprising news of the ban.

When I reached the *end* of the article, I read, *in very small print*, the fact that it was fictional and I became aware that it was a "spoof." Your article would have had a constructive effect had you stated in the beginning that it was fictional. As it appeared I am sure there must be others like myself who were extremely annoyed.

Arthur E. Meyerhoff
Rancho Santa Fe, CA

The editors reply: We expected that the Dec. 10, *1981*, date and the names of the fictional Chief Justices (i.e., James Madison, J.F. Kennedy, T. Roosevelt), both on the first page of the article, would be enough to tip off the unsuspecting reader.

What Mises Really Said about State Subsidies

By implying in the pages of REASON that the late Ludwig von Mises advocated State subsidies for the Vienna Opera, Arthur Shenfield seriously misinterprets his position (Mar.). The canard that Mises so loved the Vienna Opera that he favored subsidizing it originated many years ago at the Foundation for Economic Education's coffee table. Mises joined in a staff discussion, sparked perhaps by Leonard Read's criticism of

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city-financed golf courses. Apparently Mises commented somewhat as follows: "If the people know the costs of such a government program and still want to vote for it, they should be free to do so. Of course, everyone will then be asking government to help his or her own pet project. In that case, *if the government is going to finance such luxury projects,* I would prefer that it subsidize the opera. I'm no golfer, but I *do* enjoy opera!" From this, the rumor spread that Mises favored government-financed opera. Whenever the tale surfaced, I tried to scotch it. Then one day I confronted Mises with it and asked him point blank, "Do you advocate government-subsidized opera?" His answer? An unequivocal "No!"

Mises's personal love of opera did not blind him to the deadening effect of government subsidies on any activity. His preference would have been that the opera be allowed to develop in a free enterprise climate. It was his view that thought leaders and economists should explain to the people the full costs of any government subsidy. It was also his view that a prerequisite of a peaceful society is that the people be free to choose, and to change, their government through the ballot box.

Printing this letter in REASON should help to give this rumor a decent, and permanent, burial.

Bettina Bien Greaves
Irvington-on-Hudson, NY

An Objection to Econometrics

I was pleased to see the "Milestone" (Mar.) about J. D. Hausman's econometric model showing a correlation between the progressive income tax and the reduction in work effort by married men. Even the noneconometric opinions of economists would agree that taxes discourage work effort. It may be a milestone that an MIT research report has drawn this conclusion, especially since it makes an apparent argument that the progressive income tax should be replaced with a proportional one; but the Hausman model doesn't actually *prove* anything.

I think it is important to keep a clear distinction between economic analysis and economic model-building for use in data analysis. The belief that costs and values are objective and measurable is the principal error in econometric work. Those who want to understand the kinds of policy problems that this error leads to should read Prof. James Buchanan's short book, *Cost and Choice.* Even under methodology recommended by Milton Friedman, you should not say that Hausman has "proven" anything: what hypothesis did he falsify with his data?—that progressive taxes stimulate married men to work harder? I must say that the Mises-Hayek approach of methodological individualism seems a more valid way to "prove" the issue than econometrics could ever hope to be.

Joe Cobb
Washington, DC

Sagan Sell-out?

I have been a student, graduate, and professional of astronomy since 1967, and I wish you wouldn't fall into the same gutter as the *National Enquirer* and start promoting Carl Sagan as you did in your February issue. Carl Sagan sold out his almost naturally libertarian fellow as-

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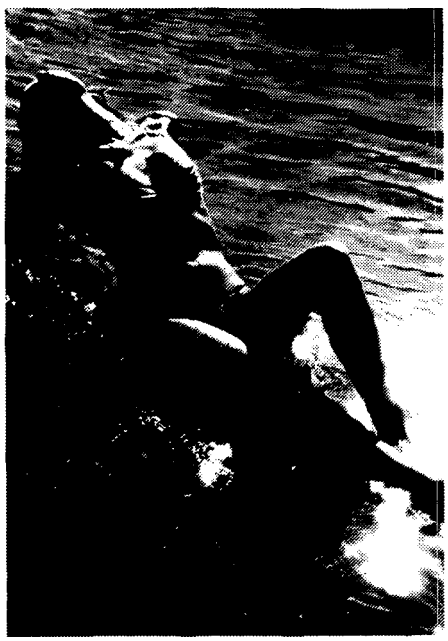

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tronomers for a weird sort of "conservative science for the democratic masses." He is now ignored by those who truly wish to do iconoclastic astronomy. Sagan, once an individualist, now praises government handouts (and controls) for science. Formerly a person on his way to great achievements in astronomy, he sold it all out in order to be Johnny Carson's "chic" astronomer for the masses. Think about it, what has he ever accomplished without a billion dollars of stolen tax money government help?

Astronomers have the sense to realize that the Nobel Prize, like the title of "Astronomer Royal," is received as the result of a popularity contest. But not only did Sagan win no recognition in Sweden, he lost the small recognition he had among his fellow astronomers. Those libertarians who have studied graduate astrophysics should stop and think: did the name Sagan ever appear in reference to any scientific discovery, or was it always merely a name attached to a government project that any random astronomer could have "officially directed"? I might disagree with Velikovsky and Von Hayek but at least they weren't the toadies of "chic" government funded science.

Please help me stop people like Sagan before they kidnap (?) my entire profession and hand it over to the government. The government already runs most of astronomy and it's next to impossible for a libertarian to find work without corrupting himself.

Walt Karwicki II
York, PA

Cryptology Correction

Thank you for printing my letter (Apr.) on your January cryptology article, but you made a significant typo: it is the "RSA"—not "NSA"—public-key cryptosystem (paragraph two). RSA stands for Rivest-Shamir-Adleman, the inventors.

Daniel Wiener
Simi Valley, CA

The Trouble with Tritium

Although as a new subscriber I missed the tritium article in your March 1980 issue, I was greatly amused by your Editor's Note on the grounding of the German Panavia Tornado fighter for removal of tritium readout devices from the cockpits (Mar.).

The FAA requires all American transports to have self-luminous exit signs in the passenger compartment. Most of those that I have seen are tritium signs made by US Radium Co. A few years ago the company for which I was director of engineering was the marketing agent for the full-size (six-inch letter) US Radium signs for building use. Since many of these required special mounting brackets, I normally had one or two of these signs in my desk drawer without conpunction. These signs were constructed with a suspension of the phosphor in a liquid containing tritium in glass tubes which were mounted in acrylic enclosures. None of the beta radiation was detectable outside the sign, and one problem with attaining luminance from the signs was attenuation of the radiation by the liquid from which it was emitted. Even were a tube broken, the radiation would not travel more than a few inches through free air. These signs have AEC/DOE approval and are listed by Underwriters' Laboratories.

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The first thing the Germans should have done was to have actually measured the beta radiation actually escaping from the readouts. It was probably zero, so the requirements of the law would have been met.

Ken Robinson
Tustin, CA

Progressive?

For the record, Derek Shearer's claim that he coined the term "economic democracy" is not correct (Apr.). Ludwig von Mises devoted a chapter to "Economic Democracy" in his *Socialism: An Economic and Sociological Analysis*, first published in English in 1936. Mr. Ciotti's article clearly shows that "progressive" thought has not yet caught up with von Mises's logic.

Daniel Lundell
Berkeley, CA

A Hawk Is a Hawk Is a Hawk

In Geoffrey Nathan's review of Geoffrey Sampson's *Liberty and Language* (Mar.), he brings up the old idea...that foreign intervention is justified to bring "liberty" to the people of other nations. What this philosophy so blithely ignores is the fact that, rationally or not, the great mass of people will hate with all their heart, soul, and mind, any government or philosophy imposed upon them by people of a different ethnic or cultural group.

Thus, even if one were to consider "libertarian" imperialism otherwise moral, the fact that its "successes" could only be tactical, never strategic, forces one to abandon consideration of this policy. Will the "hawks" in our country and even in the Libertarian Party ever learn this lesson?

J. Lanning Myers
Clinton, MD

Reviewing the Male/Female Debate

I should like to suggest a new canon of journalistic ethics: only men may review pro-woman books, and only women may review pro-man books. Reality willing, I would start with Sharon Presley's review of *Women: Psychology's Puzzle* (Feb.).

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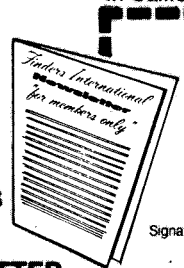

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Rohrbaugh, Presley maintains, "demonstrates the *lack of scientific evidence* to support Freud's misogynist views about penis envy and the Oepidus complex" (emphasis added). Balderdash! Not only is there no lack of evidence, there is a plethora of evidence to support Freud. Fisher and Greenberg (*The Scientific Credibility of Freud's Theories and Therapy*) cite over 150 studies on the subject, the majority providing fairly clear evidence for the validity of the theory. No theory, when first enunciated, is without subsequent modification. So too with Freud. But on balance his elucidation of the Oepidus complex and of penis envy is ably supported by the research studies.

What then of the standard "societalist's" response that all of the studies are invalid because they are not culture-free: they demand that researchers make studies of an animal that lives in a social group while removing the factor of the social group else everything observed is only a result of the social group. Aside from the logical fallacy of this argument (i.e., begging the question), it is not supported by the research. Nearly all, if not all, studies of higher animals show a different pattern of behavior dependent upon gender. This is independent of whether the animal was raised with its litter mates or in isolation. Hormone injection studies *in utero* show that the very brain structure of male and female animals is different and can be reversed by appropriate hormone injection *in utero*. Male and female human babies *at birth* (I hope that qualifies as being prior to social learning) respond differently to conditioning studies. Epidemologic studies show distinct differences in psychopathology between males and females, even when a concerted effort is made to prove that the perceived results are not real (e.g., the studies on the prevalence of hysteria and sociopathology). Split brain research shows that males and females lateralize at different ages and to different degrees, women tending to be bilateral, and men tending to be left-dominant. . . .

As for which is superior and which inferior, which dominant and which subservient, I care not a whit; but as to the Rohrbaugh/Presley argument that there is no difference aside from aggression, it is, well: balderdash.

Jack Willis
Reichian Therapy Center
Los Angeles, CA

Letters to the editor should be sent to Box 40105, Santa Barbara, CA 93103.

brickbats

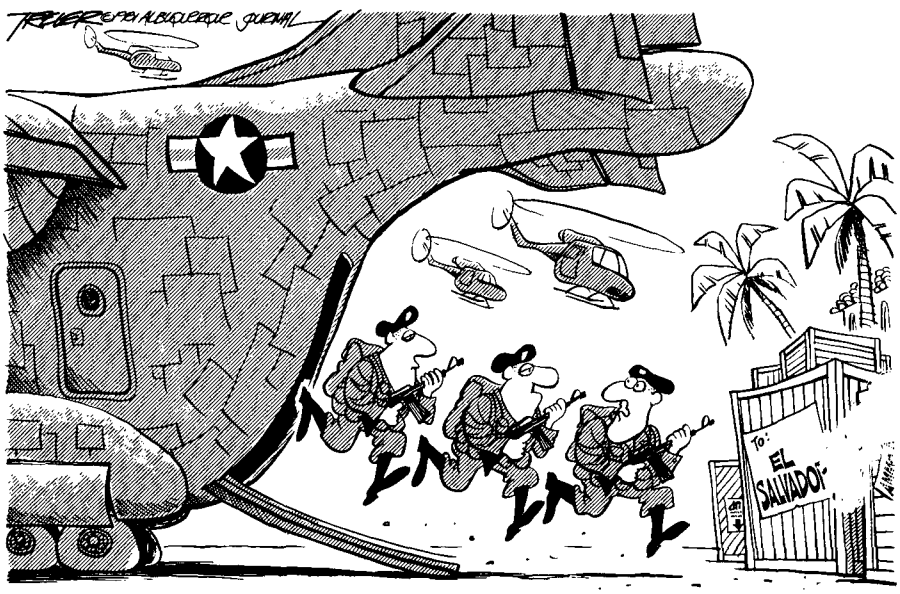
☐ **Poor Walter Spawr.** He was sentenced to the federal pen for selling top-secret US technology to the Russian Bear, even though the US prosecutor himself named the secret substance when questioning the Russian agent at Spawr's trial. And where did Spawr find the Russian buyers? At a US Department of Commerce display in Moscow in 1975, no less. One week after his sentencing, the treasonous Spawr received an invite to show his wares at another Commerce Department "technical seminar." In Peking....

☐ **Do not be surprised** if Jimmy the Pathetic sets sail for the Far Eastern People's Haven of 'Nam in the days to come. The man who 'gallantly led the Great American Peoples into the Energy War with moral fervor, patriotic duty, and price controls could be just what our commubrothers are in need of. For it appears from recent reports that the Marxist-Leninist Liberators are currently having problems of the "spirit." The problem? "The communists have lost their power to intimidate," notes Le Thanh Truong, 46, a Vietnamese refugee now in retirement from the Socialist Ideal in Thailand. "It would be a good thing for the people if the communists could make good on their promises," she offers, "but I think it's too late. For them to succeed, the people must believe them, and the people no longer believe them." Citizens do not obey orders now unless directly threatened with bodily violence, and another émigré notes: "The government has lost control over people's thinking....The cadres don't even believe themselves."

Of course, they don't. Who could believe that rubbish? Who could keep a straight face in *this* century about the Great Wealth of All the Masses under Socialism as Demonstrated at the Temple of Marxist Truth? Who, you ask? C'mon...Jimmy's just the man! Remember how he tried to solve the energy crisis with national pep rallies and "hey-hey, ho-ho, turn-off that air conditioner, here we go!!!" Take the boat, Mr. Carter, take the boat.

☐ **Sen. Edward M. Kennedy** has performed a colossal public service in holding public hearings to alert us to the mega-millions of starving that will dot America within minutes of any presidential signing of federal budget cuts as requested by the David Stockman administration. Many more poor people than simply the bums and deadbeats we usually associate with government hand-outs and congressional office staff will be affected by the dramatic cutbacks, according to the Massachusetts yachtsman, including 750,000 college students who would be forced to drop out of the education industry altogether. The senator showed off several recipients to the gathered news reporters, claiming that terrible things could befall people who were removed from government programs, including "death." (He did not mention anyone falling victim to a job, a possibility that he undoubtedly considered too fantastic to be worthy of speculation.) It was not revealed when Senator Kennedy plans to hold hearings on the lost opportunities, fortunes not made, miracle cures not discovered, productive enterprises not created, poor families not pushed up to the middle-class, due to the extortion of both our incomes and our chances by the Washington beast.

☐ **One crucial program** that Mr. Ted may have missed in his quest to identify those most vital to America's poor and downtrodden is the fabulous Chicago Housing Authority's elevator service. Over the past 11 years, 17 underprivileged, disadvantaged Americans have ridden these public services for a long ride...to their deaths. Most of the victims have been children and, consequently, nonvoters, so many of the political authorities will be somewhat relieved by this news: the recent solution to the elevator-accident problem was to simply make the elevators illegal, an act wisely accomplished by an eminent Chicago-area judge. This produced cruel results, however, for 13-year-old Fidel Flowers, a sixth-grader who prided himself on a perfect-attendance record, for which his school had just awarded him honors deserved. But Fidel will go to school no more. His public housing project proved too much. With the elevators closed by court directive, young Fidel collapsed and died of heart failure after a quick 16-story hike up to his luxury apartment. Insufficient public funds the problem, Senator Kennedy? A study by the Chicago Better Government Association claims that 30 percent of the public elevators are out-of-order on an *average* day *and* that work orders indicating accomplished repairs are routinely handed in while broken units in fact go unrepaired. Have little fear, Senator. Your government death-traps are in no danger of extinction: Fidel Flowers will *not* appear at any press conferences in the future.



"IS THIS WHAT REAGAN MEANT WHEN HE PROMISED TO GET AMERICA BACK TO WORK?"

—Thomas W. Hazlett

trends

Tax Cut Benefits

Why cut federal taxes? Most fundamentally, because government has no right to claim an arbitrary share of people's hard-earned money (as opposed to charging for those services people actually want and use). But besides this moral argument, there is overwhelming practical evidence that large-scale tax cuts could revitalize the American economy.

The "supply-side" argument for tax cuts is that many federal tax rates are so high that they actively discourage work, savings, and investment. The argument that cuts in high marginal tax rates can spur productive effort (and, incidentally, often lead to higher net revenue—a lower rate times higher economic activity) rests on at least three prior instances:

• *The Mellon tax cuts of 1922-25.* Absurdly high post-World War I marginal tax rates were cut in 1922, 1924, and 1925. The result was an economic boom, with higher tax revenues in every year but 1923 (when Congress actually *refunded* 25 percent of previously collected taxes). During the boom years, the inflation rate was actually negative.

• *The Kennedy cuts of 1964-65.* This time, monstrously high post-World War II marginal rates were cut. Again, the economy boomed, and, after a two percent decline in 1964, federal tax revenues were three percent higher in 1965 and 16 percent higher by 1966. Inflation averaged two percent a year.

• *The Steiger cut of 1978.* The top rate on capital gains was slashed from 50 percent to 28 percent. Revised government data, revealed in February, show that the Treasury actually collected $1.1 billion more from capital gains in 1979 than it had at the higher rate in 1978.

What these cases all demonstrate is that people's behavior is different when they are relieved of burdensome marginal tax rates. This becomes crystal-clear when the behavior of different income groups is examined. In the Mellon cuts, income taxes paid by those in the $50,000-$100,000 class went up 28 percent between 1921 and 1925; in the $100,000-$500,000 class, by 64 percent; and in the $500,000-$1 million class, by 114 percent. Likewise for the Kennedy cuts. From 1963 to 1966 those earning $100,000-$500,000 ended up paying 68 percent more; those earning $500,000-$1 million paid 88 percent more. What happened was that they shifted huge amounts of money from buying fur coats and Rolls-Royces *into* productive (and hence taxable) investments. Why? Because they were no longer penalized by such high rates.

These examples serve to underscore recent findings about which groups actually do the saving and investing. Much criticism of the Kemp-Roth tax cut plan concerns the alleged tendency of people to spend rather than save the money they will retain when rates are cut. A Gallup poll last August, for example, found that only 40 percent said they would save "most" of the extra money, whereas 41 percent expected to spend it. Such figures tell us very little, however, because they ignore income groups. Based on detailed surveys by William J.

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Fitzgerald, Inc., economist Michael K. Evans has concluded that "more than 100 percent of total personal saving in the U.S. is done by those with incomes over $25,000 per year." (Those with incomes under $15,000 tend to be net borrowers.) Analyzing the effects of a three-year, 30 percent across-the-board cut in tax rates (the Kemp-Roth plan), Evans concludes that about *60 percent* of the $120 billion left in people's pockets would be saved.

Facts such as these are being used to counter the usual "soak-the-rich" demagoguery that opposes large-scale cuts in the upper brackets. And a number of liberal Democrats are coming around. Rep. William Brodhead (D-Mich.) has proposed cutting the maximum rate on "unearned" income to 50 percent from 70 percent. Rep. James Jones (D-Okla.) is considering canceling the capital gains tax for two years to see what would happen. Those are amazing straws in the wind.

Gold Commission Being Activated

Little-noticed in last year's congressional enactments was an amendment—by Rep. Ron Paul (R-Tex.) and Sen. Jesse Helms (R-N.C.)—to create the US Gold Commission. The purpose of this body is to study "the role of gold in the domestic and international monetary systems" and to recommend what the policy of the US government should be.

Interestingly, the legislation provided that the new administration, whoever it would be, would appoint the commission's 15 members. And at this point the odds appear good that the commission will have a pro-gold-standard make-up. It is to be chaired by Treasury Secretary Donald Regan—several of whose deputies favor a gold standard. Membership is to include three representatives of the Federal Reserve, three Democratic and three Republican members of Congress, two members of the Council of Economic Advisors, and four private citizens appointed by the president.

Check out the arithmetic. If the GOP appoints pro-gold congressmen (and Representative Paul has already been named as one of the three), and if President Reagan appoints pro-gold private citizens (for example, Lewis Lehrman), and if the CEA representatives favor gold as well, there will be a clear majority recommending a gold standard. And if that is the outcome, the odds for enactment of gold standard legislation—such as the Art Laffer plan embodied in Senator Helms's Gold Reserve Act or Representative Paul's Monetary Freedom Act—would increase markedly. As it is, virtually all of the supply-side economists at Treasury and the Office of Management and Budget think a gold standard is the best way to solve the inflation problem.

Interestingly, Senator Helms has also indicated his intention to work for repeal of the legal-tender laws. As Helms explained to the *Gold Bug* (March), "Using the coercive power of government to require people to use a particular medium of exchange in their business dealings is unnecessary when the dollar is as good as gold, and unjust when it is not."

Cutting Out Conrail

Last month's cover story told the tale of Uncle Sam's misadventures in running passenger trains. Altogether the taxpayers are now coughing up nearly a billion dollars a year to support Amtrak. Less well-known but equally a boondoggle is the nationalized freight-hauler, Conrail. Created by merging six bankrupt railroads—and ignoring the reasons they went belly-up—this iron elephant

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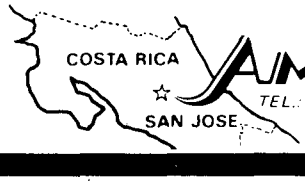

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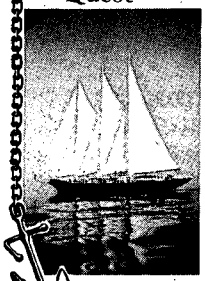

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has consumed some six billion of your dollars since it was cobbled together in 1976.

That kind of hemorrhage may soon be ended, however, if the Transportation Department has its way. "The government does not belong in the railroad business," DOT Secretary Drew Lewis told Congress late in March. The only sensible solution is to liquidate the railroad—that is, to let competent buyers take over those portions that can be operated profitably, abandoning the rest to the dustbin of history.

There will be plenty of willing buyers—if Conrail is, in fact, liquidated. *That* means that its outrageously political guarantees of lifetime employment (or pay) to 60,000 employees will be scrapped along with the railroad. Potential buyers could then start from scratch, buying up whatever track and equipment made sense and hiring whatever workers they needed, under mutually agreeable terms. Legislation to permit just that, by repealing Title V of the merger act, has been introduced by DOT.

The howling has already begun, in part from shippers (*Q:* "Who would haul our goods?" *A:* Trucks.), in part from Conrail's unions, and even from Conrail management and from its overseers, the US Railway Association and the Interstate Commerce Commission. Yet all the screaming and special pleading cannot erase the simple fact that Conrail is losing billions because it makes no economic sense as a railroad company. Only the purgative of liquidation can restore health to eastern railroading—by transferring assets into productive hands.

Tax Evaders Unite

Much to the disquiet, no doubt, of the Internal Revenue Service, the results of the most recent attitude survey commissioned by the IRS strongly indicate that a large segment of the American population consists of tax evaders. When asked how much their consciences would bother them over various tax evasions, some 62 percent said they would not be bothered over failing to declare the bartering of services. In addition, 53 percent would not feel bad about hiding gambling earnings, 49 percent would pad business travel expenses without too much guilt, 46 percent would pad medical expenses, and 42 percent would understate their income.

Aside from the slow deterioration of respect for the IRS, the agency also has on its hands a full-fledged tax revolt in Michigan. Some 3,500 taxpayers in that area doctored their tax liabilities by declaring as many as 99 dependents on their withholding forms, by claiming tax exemptions as members of the clergy, and by scrawling the word *unconstitutional* across their income tax forms. The revolters are counting on the fact that there are too many of them to prosecute, although, of the 1,100 people of that group to receive warning letters from the IRS, 500 did subsequently request their employers to revert to the "correct" withholding amounts.

An antitax citizen's group called We the People ACT (American Citizens Tribunal) seems to be spearheading the Michigan revolt. News reports at press time have indicated a similar revolt by construction workers at a nuclear power plant site in Washington State, also using the practice of claiming a large number of dependents. The IRS refuses to comment on the existence of a Washington revolt.

The IRS does, on the other hand, have a battle plan to fight this particular method of tax evasion. It has issued a new regulation emphasizing an already existing rule that requires employers to report any withholding claims of more than nine dependents so that the IRS can check on that individual's past records. If the IRS determines that there is no justification for the excessive number of dependents and the taxpayer cannot justify the increased number, the new regulation allows it to tell the employer how much tax to withhold. Falsifying a W-4 form, the IRS warns, could mean up to a year in jail and a $500 fine.

Meanwhile, tax protester Irwin Schiff (*The Biggest Con*) has finally been jailed for "knowingly failing to provide financial information" on his 1974 and 1975 federal income tax forms. Schiff has not given up. He says he will seek President Reagan's help as a "political prisoner."

CAB Coup de Grace

Many airline officials have become converts to deregulation over the past two years. But, as reported here earlier (see Trends, Aug. 1980), they've begun to chafe at remaining under partial regulation during the six-year phase-out of the Civil Aeronautics Board provided for in the 1978 Deregulation Act. As Rep. Elliott Levitas (D-Ga.) of the House Public Works and Transportation Committee has put it, "As deregulation is becoming institutionalized, there is no need to continue the CAB."

Consequently, the Reagan administration has sent Congress a bill to terminate the agency two years early, on September 30, 1982, instead of January 1, 1985. At that point domestic airline routes and fares would be completely deregulated, with international agreements left to the Transportation Department. (The measure would also increase aviation user taxes—on airline tickets and aviation gasoline—and take 41 large airports off of federal subsidies.)

As for the airlines' viability under deregulation, the release of 1980 earnings figures should dispel any lingering doubts. Despite soaring fuel prices and the general recession, only four of the 11 major carriers (excluding Braniff, which failed to report) lost money in 1980. The other seven showed profits, as did many of the smaller, more aggressive carriers like Southwest and Air Florida. Overall, the 11 major lines earned $216 million in profits last year—not a lot (on $25 billion in gross revenues), but hardly the economic debacle many commentators had led us to believe was occurring.

Medicaid: Terminally Ill?

The latest figures from the Census Bureau show that Medicare coverage extends to one in every four households, or 18.5 million households. Medicaid, which is meant for needy persons (in contrast to Medicare's coverage of the aged and disabled), covers another 18.1 million in 8 million households. That's a lot of people—and a lot of money. Medicaid payments alone have gone up from $1.9 billion in 1967 to $21.7 billion. Economists have charged that because Medicare and Medicaid subsidize medical costs, demand is disproportionately high and the services overused. Whatever the reason for the spiraling costs of subsidized health care, critics say, something must be done to stem them. Now, two states are experimenting with alternative Medicaid systems.

Massachusetts's plan is pretty radical: the state government is asking the federal government to let it impose a ceiling on its Medicaid program (states pay about half of the costs) and, furthermore, to allow it to use private prepaid medical group plans. Massachusetts health officials say that some $50 million is spent unnecessarily each year for Medicaid patients who use emergency room facilities for routine ailments—and the state is obliged to shell out the money. They think they can save 20 percent or more by farming out patients to private "in-

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termediaries"—separate corporations formed by doctors, nurses, pharmacies, etc.—who would get a flat per capita fee for each patient enrolled. Intermediaries would then be responsible for that patient's health; if the intermediary were run efficiently and discouraged unnecessary visits, it could make a profit. If it lost money, the state would not make up the difference. Massachusetts Secretary of Human Services Charles Mahoney believes that adopting this plan nationally could save taxpayers $6 to $7 billion a year. At press time, it was not clear whether the federal government would approve the experiment.

Arizona, on the other hand, is the only state that has refused to adopt Medicaid, electing instead to provide its own state-run health care program for the indigent. Total spending, however, is expected to reach $141 million this year, almost twice the amount spent four years ago. This despite the fact that Arizona's plan does not cover many standard Medicaid items like preventive health care, hearing aids, psychiatric care, and eyeglasses. Ironically, it's the new, expensive diagnostic machines that are costing the state a lot of money—and not only these machines' acquisition and maintenance, but the fact that they have introduced modern lifesaving techniques such as saving very premature babies (this alone can cost the taxpayers $100,000 for a single baby). A second high-cost factor is long-term care for the aging, quite a problem in a retirement area.

But despite some calls for joining federal Medicaid, both Arizona's house majority leader, Burton Barr, and Gov. Bruce Babbitt are determined to stick it out. Barr wants to introduce a prepaid health care system that relies on private insurers and fixed per capita rates. Cochise County has already introduced competitive bidding for doctors and a referral system that stipulates that specialists on contract with the health department be used first; if patients are not satisfied with the health department contractee, they are referred to a specialist group in Tucson.

Neither state's program solves the fundamental problem of government intrusion into health care, but both appear to represent small steps toward greater fiscal sanity.

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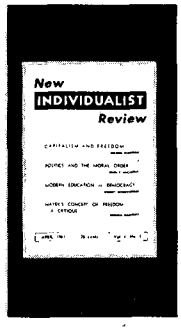

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Oceans Treaty Surprise

When James L. Malone, the new chief US delegate to the UN Law of the Sea Conference, announced just before the opening of the 10th session that the Reagan administration wished to reopen the entire text of the treaty to review, he must have ended any hopes of potential friendships with the delegates from over 150 nations. The delegates had expected that session to be the last one, a mere cleaning up of language and loose ends, since the former US delegate, Elliott Richardson, had seemed amenable to the terms in the most touchy aspect of the treaty: seabed mining rights. But now the administration seems to have come around to the viewpoint that REASON Editor Robert Poole espoused in an article on the subject many years ago ("The Seabed Power Struggle," July 1974): that seabed minerals are *not* the "common heritage of all mankind," to be mined for the benefit of the neediest among the earth's countries. This "common heritage" view had become the prevailing one, with a tentative plan to set up a 36-member council—composed mainly of delegates from developing nations—to decide who would get to mine, how much they could mine, and to whom the royalties would go.

Fortunately, the new chief delegate is unwilling to go along with these proposals. The administration has indicated

that it will not back any treaty that denies seabed mining rights to US companies, even if that means scrapping the entire treaty now a decade in the making. While the delay has come under fire from Democrats for holding back on a process "that has had the bipartisan support of three previous administrations," as Sen. Claiborne Pell (D-R.I.) put it, the US mining industry is supportive of the delay. They are even happier over the return of attorney Leigh Ratiner as a member of the US delegation, since Ratiner worked on the seabed treaty in the mid-'70s and opposes the "common heritage" approach.

While it is tempting to hope that the administration will hold firm to free-market policies and maybe even adopt Poole's recommendation that the United States "take a firm stand for private property rights on the seabed, free of sovereignty, taxation, and regulation," one wonders if the tide can still be stemmed.

Nonaligned Nations Move Away from USSR

At a February conference attended by the foreign ministers of over 90 nations claiming nonalignment with either the United States or Soviet Russia, a pronounced shift from previous endorsements of Russian policies was evident. The conference adopted resolutions at its concluding session calling for the withdrawal of "foreign troops" from Afghanistan and for the withdrawal of "all foreign forces from all states" in Southeast Asia, specifically, in Cambodia, where an estimated 200,000 pro-Soviet Vietnamese have invaded the country. The resolution on Afghanistan was unanimously passed.

At last year's conference, held in Havana, Cuba, the mood seemed to be that the unaligned nations and the Soviet bloc are "natural allies." Sierra Leone's Foreign Minister Abdulai Conteh, however, stressed at the 1981 conference's inaugural session that "the movement has no natural allies except its own members." Attempts to soften wording on the Afghanistan resolution—and to imply recognition of the Soviet regime—were unsuccessful, as was a resolution deploring military buildup in the Indian Ocean and naming the US military base under construction there. "How can you have increased tensions and confrontation with just one superpower?" Singapore Foreign Minister Suppiah Dhanabalan explained, referring to the Soviet base in South Yemen. "Either name all the bases or none." (None were named.)

The principal cause for the coolness toward the USSR seems to be its invasion of Afghanistan and its support for the Vietnamese invasion of Cambodia. "Are we still to consider it a friend when it invades or occupies small unaligned countries?" Dhanabalan asked in his speech to the plenary session. It seems that the maddening double standard some nonaligned nations have long held—sharp criticism of any American intrusion and closed eyes to Soviet invasions—is giving way to a more consistent policy.

Alternatives to MX

New doubts have surfaced over the cost-effectiveness of the massive MX missile

I SCOFFED AT THE "NUTS" WHO SAID "GET US OUT OF THE U.N."

I was for the United Nations; I read its "United Declaration of Human Rights"... "freedom of religion... right to hold opinions... peaceful assembly ...." etc. But then, I discovered Article 29, which reads in part:

"In the exercise of his rights and freedoms, everyone shall be subject to such limitations as are determined by law..."[1]

That's not the way our American "Bill of Rights" reads. That priceless guarantee of human freedom states in part "Congress shall make no law respecting the establishment of religion... freedom of speech... the press... peaceably to assemble...."[1]

Then I recalled that the chief U.S. architect of the U.N. Charter (ominously similar to the Soviet Constitution) was a proven Soviet agent, as were most other of his sixteen U.S. collaborators.

Later, I learned of the Big Five's 1946 London Agreement. It guarantees that only a Soviet national shall be "Assistant Secretary General for Political and Security Council Affairs." This office holds undisputed command over all U.N. military activities anywhere in the world. (Examples: Korea and Vietnam).

1 Emphasis added

In both these wars--for the first time in our proud history--we were losers! In both Korea and Vietnam generals of integrity and brilliance such as McArthur, Walt, Westmorland and all members of our superior fighting personnel, were "strangled" by a Communist U.N. Command and staff!

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project—a system for hiding 200 ICBMs among 4,600 shelters in Utah and Nevada. Leading the doubters is Defense Secretary Caspar Weinberger, who has ordered a thorough analysis of MX and several alternatives.

Weinberger told Congress he was worried about the system's escalating costs and the prospect that "it could get snarled up with a separate lawsuit over every missile shelter" because of opposition from land-owners and environmentalists. He even questioned the need for a land-based leg of the "triad" of strategic systems—ICBMs, submarine-launched missiles, and manned bombers.

The purpose of such a triad is to have several distinctly different offensive systems, to reduce their vulnerability to enemy countermeasures. But the disadvantages of having *two* land-based systems (bombers and ICBMs) are that (*a*) both are to some extent vulnerable to the same type of attack, and (*b*) both make the US land mass a prime target. Consequently, interest in MX alternatives has focused on the sea and outer space.

Short-term, the two principal alternatives are sea-based missiles. The congressional Office of Technology Assessment released a report in March arguing for a system consisting of a large number of small submarines carrying two to four missiles each and operating relatively near the North American continent. Such a system, advocated by IBM defense expert Richard Garwin, would be distinctly different from the present ballistic missile submarines—a small number of very large subs carrying numerous missiles and operating throughout the world's oceans. The other alternative, urged by former Defense Secretary Melvin Laird, is to carry ICBMs in canisters on a large number of surface ships, dumping them overboard for launch. The process was proved out by the Navy's Project Hydra in the 1960s. Most analysts think either sea-based alternative would be cheaper and available sooner than MX. The major obstacle seems to be political—the Air Force doesn't want the Navy to operate two legs of the triad (as it has been doing for two decades).

But the longer-term alternative to MX would give the Air Force a new role. That is a system of space-based anti-ICBM laser weapons. The Defense Advanced Research Projects Agency (DARPA) recommended in February that efforts be focused toward deployment of a laser battle station based on a five-megawatt/four-meter-diameter chemical laser. DARPA's report estimated that such a system could be tested in space within nine years, without a crash-program effort. If the Soviets took countermeasures to protect their ICBMs, larger battle stations (25 megawatt/15-meter-diameter) would later be needed and could be operational in 20-25 years, DARPA estimated.

Meanwhile, Lawrence Livermore Laboratory reported a laser breakthrough—the demonstration of a laser device pumped by x-rays from a small nuclear explosion. An orbiting battle station based on this design might consist of 50 laser rods that would be independently aimed at the missiles in a salvo; upon detonation, all 50 would "fire" at once, destroying their targets by shockwave. Missiles hardened against chemical lasers (which destroy by thermal energy) would still be vulnerable to the x-ray laser. The x-ray laser battle station would be small enough to be launched by a single Space Shuttle flight. Defense analysts now envision a mix of x-ray laser stations in low earth orbit and chemical laser stations in higher orbit.

There is some opposition to laser weapons development within the Defense Department, especially from Carter-era officials who see laser systems competing for funds with MX. One senator highlighted the problem to *Aviation Week:* "If lasers can destroy ICBMs, the question is, then, why do we need ICBMs, and it's a fight looking to happen."

Air Pollution—Bubbling Up

Economists have long criticized the brute-force approach to air pollution control in which the Environmental Protection Agency sets arbitrary standards for emissions from every smokestack and tells companies—in detail—what technology to use to obtain them. But basic changes in that approach are in the wind.

To begin with, scientists are now taking a closer look at the health research data that EPA uses to set its national emission standards. A study conducted for the National Chamber Foundation by the American Council on Science and Health reported (in February) that no one really knows at what point prolonged exposure to low levels of sulfur dioxide and particulates becomes a health hazard. EPA has consistently erred on the side of caution—but often at a considerable price for only small increments in emission reduction. When health hazards have not been established, compelling massive expenditures is certainly questionable.

Over the past year EPA has begun to back away from the detailed specification of *how* companies must comply. The key innovation is the "bubble" policy—treating an entire plant as if it were a single pollution source and leaving it up to the operator to decide *how* to meet the emission standards. Under this approach, an Armco steel plant in Middletown, Ohio, was able to accomplish six times the required pollution cutback at one-fourth the usual cost. Armco figured out that more than half the particulates in the air around the plant were from windblown sources—dust from piles of iron ore, roads, etc. Controlling those sources was far less costly than controlling stack emissions.

Several dozen other bubble plans are in the process of being approved by EPA, and up to 100 more are expected this year. In March the agency announced that it intends to extend the use of the bubble approach to areas where air quality is poor and minimum standards are not being met. Up till now, in such areas (for example, southern California) it has been extremely difficult for firms to get permission to expand. Many California oil refineries have been unable to make needed modifications to enable them to

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refine heavy California oil. A 1980 study by the governor's office estimated that these modifications could result in oil cost savings of several billion dollars a year. Two closed-down GM assembly plants have been unable to retool to produce small, fuel-efficient cars. Thus, expansion of the bubble approach could bring important benefits.

More Broadcasting Deregulation

Several promising steps toward free-market broadcasting are being taken in both the radio and television industries.

A bill proposed by Sen. Harrison Schmitt (R-N.M.) would prevent the Federal Communications Commission from regulating radio programming or formats, from requiring program logs, and from limiting the number of commercials—moves the FCC has adopted on its own but which are being challenged in court. It would also grant indefinite, rather than the current three-year, radio licenses. Similarly, the US Supreme Court ruled in March that the market, not the government, should determine a radio station's format. (The FCC had agreed with that ruling.) The case arose when a classical music radio station in 1976 decided to change its format to progressive rock and was challenged by its Listeners Guild, three television networks, the New York City Opera, and various citizens' groups. The Supreme Court said, in its ruling, that "the marketplace alone could best accommodate the varied and changing tastes of the listening public."

Meanwhile, on the television front, two FCC staff reports have recommended deregulation. One, prepared after two years of study, noted that the existence of only three commercial networks can be blamed on previous FCC decisions, so that the best way to encourage diversity is to repeal those rules inhibiting competition. For example, the report noted, an FCC regulation prevents the licensing of a pay-TV station in any market in which there are not at least four commercial stations. "We recommend the rule be repealed," the staff said. Other recommendations were to license new VHF and low-power stations, repeal the prime-time access rule, authorize experimental satellite-to-home broadcasting systems, and repeal regulations on network-affiliate contract relationships.

Another FCC report urged Congress not to apply political broadcasting rules to programs and newspapers distributed by cable. Report author W. Randy Nichols said that "the effort should be toward bringing the print regulatory model to bear in the video environment, rather than permitting the broadcast model to overcome the historic protections afforded the free press in its printed versions." The report was forwarded to Senate Communications Subcommittee Chairman Barry Goldwater (R-Ariz.), who is himself sponsoring another broadcasting bill, S 601.

The Goldwater bill would extend the length of television licenses from three to five years and loosen procedures for renewing a license. Under present rules, existing stations may be challenged at renewal time by competing organizations, in which case the FCC is supposed to hold hearings to decide which is best qualified. Instead of this, Goldwater proposes that as long as the licensee has "substantially met" the needs of its service area, renewal should be automatic. The FCC would be empowered to establish a lottery or some random process to choose among applicants for a new TV license. The bill is cosponsored by Communications Committee Chairman Robert Packwood (R-Ore.) but faces opposition from citizens' groups such as the National Citizens Committee for Broadcasting, which prefer the present system under which they can count on FCC compulsion to ensure that their own views get aired.

Big Brother . . . Hard to Disown

Two recent but unrelated news items reveal an alarming trend when put side-by-side. One item, covered by both the *Wall Street Journal* and the *New York Times*, reported on a Census Bureau release saying that one out of three US families receives some sort of benefits from the federal government. The second item, in the *Los Angeles Herald-Examiner*, summarizes a Harris Survey showing that, while 53 percent of respondents believe that big government is the greatest threat to well-being in this country, 72 percent also think the federal government should see to it that "every person achieves at least a minimum standard of living." Our paternalistic government has become so pervasive that even those people who are against big government hesitate to cut those programs they themselves benefit from.

The Census Bureau reports show that out of the 79,108,000 households counted in the 1980 Census, 27,190,000 of these use at least one of five federal benefit programs: Medicare, Medicaid, food stamps, subsidized housing, and school lunch aid. Author Gordon W. Green, Jr., noted that those receiving benefits based on income level accounted for about one household in six. The *Wall Street Journal* write-up noted that 57.3 percent of households getting subsidized school lunches are above the poverty line, according to the Bureau report, as well as 53.4 percent of those using subsidized housing, 52.5 percent of those covered by Medicaid, and 82 percent of those using Medicare. (The official poverty line in 1979—the year the survey was conducted—was $7,412 for a non-farm family of four.)

The Harris Survey, on the other hand, showed that 59 percent of the 1,254 adults surveyed nationwide agree with Jefferson's statement that "the best government is the government that governs the least." Only 32 percent had agreed with that sentiment in 1973; 48 percent in 1976. More people also agreed that local government should be given as many of the services to handle as possible (82 percent as compared with 72 percent in 1973). However, respondents also thought that federal government should "handle the most important matters, such as how to control inflation, avoid a depression, and achieve peace in the world" (89 percent, the same percentage that agreed eight years ago). Again, a similar number of present respondents agreed with their 1973 counterparts (78 vs. 76 percent) that the federal government should "regulate major companies, industries and institutions to be sure they don't take advantage of the public."

Insuring Dump Safety

As pointed out on REASON's editorial page in February, the recently enacted "Superfund" legislation actually socializes the costs of hazardous waste disposal. By taxing everyone to pay for dump cleanups, it can be expected to reduce incentives to operate and maintain waste dumps responsibly.

But a new federal regulation, issued last winter, points the way toward a better solution. The Environmental Protection Agency has decreed that owners of hazardous-waste disposal facilities must obtain liability insurance to cover up to $3 million per pollution incident. EPA is writing detailed rules for monitoring and maintaining these disposal sites—which

is probably *not* a good idea since (*a*) actual requirements will vary greatly, and centralized prescriptions tend to be either insufficient or overkill; (*b*) technology changes faster than regulations; and (*c*) following the letter of the rules might be used as a defense against liability even though the dump operator was otherwise foolish or negligent.

Nevertheless, imposing certain liability directly on the dump owners is far more sensible than taxing everyone to pay for the irresponsibility of the few. If only Congress would get the message.

Milestones

• *Santa Monica Rent Control Hit.* A superior court judge in California has ruled that Santa Monica's tough rent control law [see REASON's April cover story] must be rewritten to allow larger rent increases. Two portions of the present law are affected: one that defines "investment" as the original purchase price of a building rather than its current market value, thus keeping the landlord's "fair return on investment" very low; and, another that allows rent control investigators to disallow rent increases if they find that the landlord purchased the apartment units as a "speculative venture." Judge Richard A. Lavine called both measures unconstitutional. Another portion of the law that virtually bans condominium conversions and apartment demolitions will be decided at a separate trial, Lavine said.

• *Patent Life Extension?* Sen. Charles Mathias (R-Md.) introduced a bill earlier this year that would extend the patent life of a product "by the amount of time equal to the regulatory review period," up to seven years maximum. That would add seven years to the current 17-year life of a drug patent, based on the fact that it now takes the Food and Drug Administration an average of 10 years to review a new drug. The extension would allow a larger return on research investment.

• *Dairy Subsidy Loses.* The Senate voted to cancel a scheduled seven percent increase in dairy price supports by a hefty 88-to-5 vote, and the House concurred soon after. President Reagan signed the measure from his hospital bed.

• *TMI Update.* A final Pennsylvania Health Department report concurred with earlier Nuclear Regulatory Commission findings (Milestones, Feb.) that radiation released in the accident at Three Mile Island nuclear plant did not cause the deaths of infants or fetuses. The study covered a radius of 10 miles. The state health department has not yet concluded its study on TMI-related abnormalities such as premature births, mental retardation, and congenital defects, a spokesman said.

• *Our Friendly Postal Monopoly.* The United States Postal Service has issued a new rule that defines as "Letters" mailers and circulars delivered along with magazines by private delivery services. This makes such circulars subject to separate postage. The USPS then shrewdly suspended the new rule for an indefinite period, defusing attempts to take legal action against it. Despite the suspension, the National Association of Selective Distributors says it will take "appropriate legal action" when the USPS tries to enforce the rule.

• *Chinese Disillusioned.* An article by a "special commentator" (usually a senior Communist Party official) in the party's *People's Daily* newspaper acknowledged that errors made during the party's 31-year reign have caused some people to doubt socialism—in fact, workers and students marched on Hebei province government offices by the thousands recently, and workers in Shanghai have attempted to set up Polish-style independent labor unions. But the problem, asserted the commentator, was not in the system but in the former leaders, and current leaders should be allowed to demonstrate that "only socialism can save China." The article further urged readers to revive "revolutionary selflessness."

• *What Is Cocaine?* The Fourth District Court of Appeals ruled on March 2 that cocaine "is a drug with low abuse potential and not very dangerous"; that it is *not* a narcotic and cannot be considered addictive and harmful to the body; and that its effects are shorter in duration than those of caffeine, nicotine, or amphetamines. The state of Illinois is bringing that ruling to the state supreme court, and it will base its argument on the "widespread profits and widespread evil connected with the trafficking of cocaine," Staff Attorney David Mannchen said.

• *Educational Credit Inititiative.* The D.C. Committee for Improved Education, an affiliate of the National Taxpayers Union, has begun a petition drive seeking 25,000 names to put a local educational tax credit initiative on the November ballot. The initiative would allow parents, other individuals, and corporations to reduce their income taxes by up to $1,200 per pupil on private or public school fees or programs in Washington, D.C. A *Washington Post* article on the initiative quoted NTU official Jule Herbert and mentioned that Libertarian presidential candidate Ed Clark had proposed a similar plan during his campaign. The initiative is under heavy attack from the educational establishment.

• *Sex Report Law Suspended.* The California Supreme Court recently suspended a new state law that requires doctors to report known or suspected sexual activity by females under the age of 18 to the state or face criminal penalties. The provision was attached to a bill consolidating child abuse statutes and has been challenged by both the California Medical Association and the American Civil Liberties Union. The CMA argues that the law breaches the confidential patient-doctor relationship and would deter female minors from seeking medical care, while the ACLU charges that the law violates both federal and state guarantees of privacy.

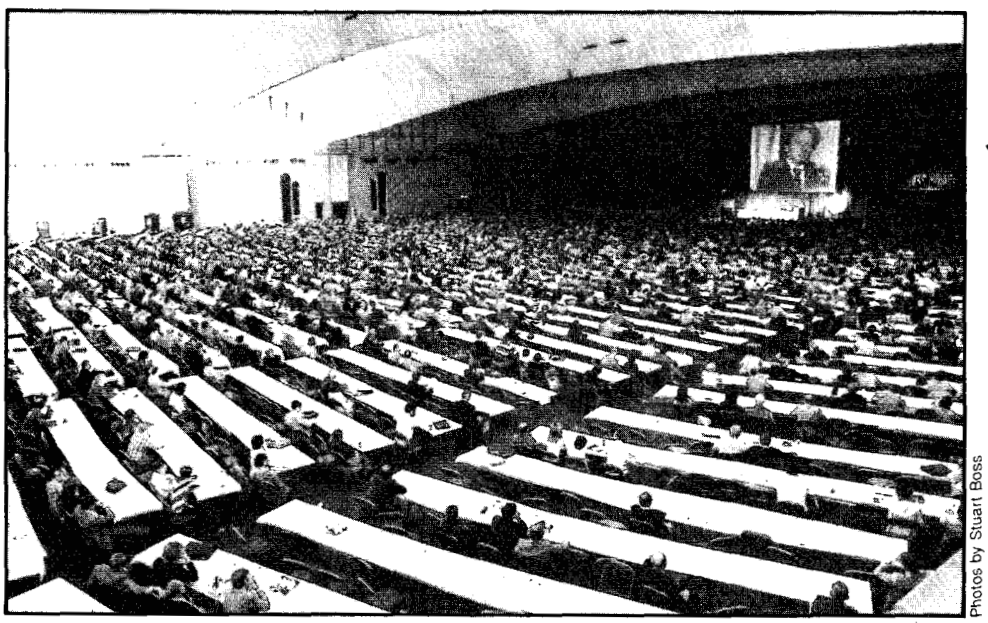
• *Supreme Court Sidesteps Zoning.* The US Supreme Court unexpectedly declined to rule on the *San Diego Gas & Electric Co.* v. *City of San Diego* case (Trends, Feb.) involving that local government's downzoning of SDG&EC's land. The district Court of Appeal had ruled that the utility was entitled to just compensation for the value of its land having been reduced by the downzoning; the California Supreme Court decided in a somewhat similar case (*Agins* v. *Tiburon*), but on narrower grounds, that Agins was not entitled to damages resulting from Tiburon's downzoning of his land. The San Diego court then threw out the utility's award, and SDG&EL brought the case to the higher court. The US Supreme Court has now thrown the ball back into the California Supreme Court's lap, and the issue of just compensation with regard to downzoning remains to be settled.

• *Ohio Court on Private Schools.* The Ohio Supreme Court unanimously ruled that Ohio's compulsory education law cannot interfere with parents' rights to send their children to private or religious schools, even when those schools do not meet minimum state standards. The court decided that the First Amendment claim to religious freedom would take priority "until such time as the State Board of Education adopts minimum standards which go no further than necessary to assure the state's legitimate interest in the education of children."

—Robert Poole, Jr., and Christine Dorffi

Gold Bug Gumbo

By Jeff Calvert



Photos by Stuart Boss

Mix a bushelful of investment advisors, add equal handfuls of inflationists and deflationists, and lace with a dash of humor. Serves thousands in New Orleans. A report on NCMR's 1980 recipe.

IT WAS WEDNESDAY evening, November 5, 1980, and the granddaddy of all the hard-money conferences was about to begin in style. Jim Blanchard's National Committee for Monetary Reform has come a long way since the Legalize Gold movement began in New Orleans in 1974. The few hundred "gold bugs" of those days have increased as much as the price of gold, and most of the several thousand newest converts were prompt in their pilgrimage to New Orleans '80. As the golden sun set in the Goldwater west, Jim Blanchard's golden girls ushered us toward golden tablecloths covered with Cajun canapes and golden-brown fried shrimp. The feast was appropriately interrupted by the sudden appearance of a (dare I say it) *brass* band.

All of the biggies were there, along with some new apostles and, for comic relief, a Carter bureaucrat. Five days of economic masochism were about to begin. The "Great Debate" between inflationists and deflationists continues to rage, with both sides still pushing gold as the ultimate hedge. Trilateralism is still a major undercurrent—some speakers see Trilateralists in every gold mine and have developed investment strategies based totally on the doings of Chase Manhattan Bank. And warnings were put out against a new threat. The SEC and its proposed laws requiring the licensing of investment advisors, including, apparently, investment newsletters.

Thursday morning was beautiful in New Orleans, just as the Chamber of Commerce had said it would be. The first general session began at 8:20, just as it said in the program. Our first speaker was Nicholas Deak. He holds no hope for our currency. It will be wiped out and replaced by another currency, he said—and he has seen 'em come and seen 'em go. Deak still recommends Switzerland as the ultimate hedge but was short-term bullish on America. T-Bills look good, he said, as do gold and silver, as usual.

Deak was followed by Lewis Lehrman, founder of a private retailing company and of the Lehrman Institute. Lehrman detailed the tremendous expansion of

government borrowing to finance deficits, squeezing out private-sector borrowing and thus capital investment. The country's gold and silver reserves have been squandered, and inflation is out of control. Is there any way out? A return to the gold standard—and it is possible, he said.

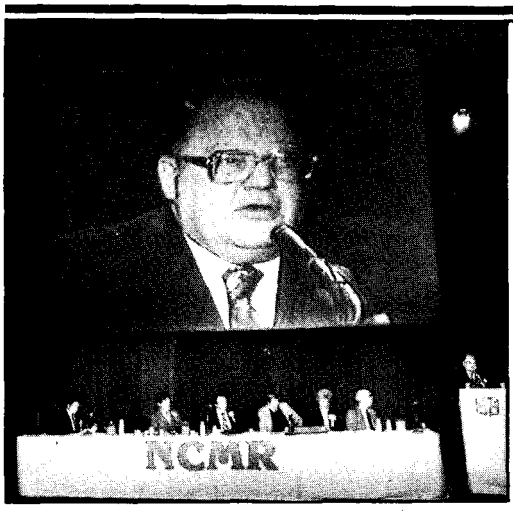
Then came Christopher Story, discussing the financial crisis facing the international banking system, with special emphasis on US-Saudi Arabian relationships. According to Story, the United States is building military bases in Saudi Arabia to the tune of over $40 billion—giving the United States an overall surplus in its balance of payments. "Petro dollars" are being recycled in mysterious ways. He saw strength in the US dollar and had a couple of tips for international investing and tax avoidance.

After a refreshing "energy" break—orange juice and yogurt—Franz Pick picked on us. There is no hope; the currency is doomed, bonds are in ruin, and the country is bankrupt. War will be seen as the solution by our politicians, traitors they be. Sound a bit pessimistic? Pick was almost immediately contradicted by Andre Sharon.

As in his workshop the night before, in front of the general assembly Sharon was good. He saw growth in the American economy, called ours an "era of opportunity." Andre stressed capital preservation and, because "good investors diversify and are flexible," overseas investment. Gold is on a short-term downturn, and Australia is on a long-term upswing. The Russians are truly on the move, according to Sharon, but they, too, are having their problems. To Andre, the Russians are not the greatest threat; the economy is.

Julian Snyder feared that our foreign policy is a big part of our problem. The Trilateralists are everywhere. It's the same old gang no matter whom we elect. He sees the banking system as the culprit and the American citizen as its victim. Iran and the hostages were a put-up job to save Chase Manhattan and Jimmy. He correctly perceives the problem as more than just inflation or depression; it's freedom versus slavery.

Richard Russell, a calm theoretician of the Dow, then gave us his view of the future. Politics will not solve our problems. It costs $2 billion a week just to service the debt. The debt will consume us. In the meantime, however, stocks look good!



Nelson Bunker Hunt doesn't have to worry about making more. He shed no light on silver, making money, or even how to inherit a little.

William Rickenbacker took us to lunch time with his "Confessions of an Investment Advisor." He laid out three solid rules for investing: take a *long*-term approach, be deliberate, and diversify. He recommended some good investment books, all very conservative, and then suggested his "Old Man River" (obvious attempt to be relevant to the setting) stocks. Rickenbacker suggested we review the rarely heard of but traditionally solid stocks Ball Co. (mason jars), R. R. Donnelly (grain dealers), and US Tobacco (dippin' snuff is big these days)—the good old "widows and orphans" stocks. His confession was accepted, and he was found guilty of being an investment advisor.

Lunch in New Orleans is truly a feast. Soups and gumbos abound, fresh seafood is everywhere, and gourmet restaurants are as common as investment advisors. Though tempted by gold and almost seduced by silver, I made my major New Orleans investment in food! And what a gain I made on it!

James Sinclair got our minds off the food and back to reality. A highly respected Wall Street analyst, Sinclair warned of the major cycles in the markets—which suggest a major downturn from early 1981 until late 1982. Then he sees the cycles gathering major support for a huge upward trend. Strategic metals are going to be big winners in the near term, he added consolingly.

The next speaker was Bert Dohmen-Ramirez. I had not heard of him before, and I was in for a pleasant surprise. The boom and bust cycle is a function of interest rates, he said, and watching the Federal Funds rate is the key to predicting interest rates. When the Federal Funds rate is within 1¼ percent of the interest rate, then money is tight! Those who anticipate the government will make money.

Nelson Bunker Hunt, bailed out of the silver storm by Uncle Sam, was a highly anticipated speaker. Now I like "good ol' Texas boys" same as the next fellow, but there is a limit. Nelson inherited millions, maybe billions, so he doesn't have to worry about making more. He shed no light on silver, making money, or even how to inherit a little. He did, however, tell us how he likes the way the Moral Majority worked. He felt the election was significant and hoped Reagan wouldn't be "controlled" (by Trilateralists?). He characterized America's decline—that is, booze, drugs, low productivity—as a spiritual problem solvable only by a return to Jesus.

Bunkie was followed by Lawrence (L. T.) Patterson, who called the roll of the Trilateral Commission *and* the Council on Foreign Relations and demanded that the Republican platform be enforced. (It calls for no subversives in the cabinet, I guess.) Reagan had already met with Kissinger and Rockefeller on September 3. You didn't read that in the *Los Angeles Times*? The Trilats, you see, control the media. Much like Bunkie, Patterson concluded that we all should say some prayers for Reagan and the USA.

The Thursday session concluded with George Will, syndicated writer, *Newsweek* columnist, and formerly with *National Review*. He started out by saying that the election of Reagan was a revolution, but a little later he said the vote was not for *radical* change, and Reagan will not be able to cut much off the many government programs. But any govern-

ment that subsidizes Chrysler and tries to break up IBM at the same time, he noted, is in serious trouble. The private sector is being suffocated, and political moderation is necessary before economic growth can continue.

Thursday ended with free drinks for everyone who could stand up and get to the nearest bar. They were conveniently located at all entrances, exits, and 50-foot intervals in between. Each evening there were hospitality suites—more free drinks—where one could go for some one-on-one investment counseling. Being gregarious, I went; but, being relatively poor, I drank.

The Friday session began with Walter Bressert and his opinion on how the major cycles were affecting the financial community. He saw dropping gold and silver prices, rising food and selected grain prices, and a bottoming out of the major cycles in 1982.

By now, *1982* had come up on numerous occasions, and I assume they were all talking Kondratiev Wave theory. Most of the inflationists see 1982 as the beginning of the last wave—that is, hyperinflationary blowoff.

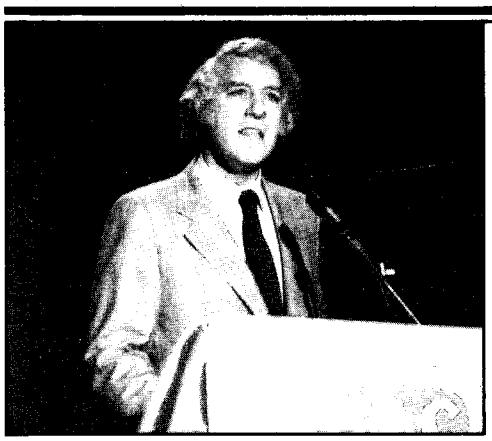
Jerome Smith was the next scheduled speaker, but his place was taken by Robert Meier, of a Costa Rican brokerage firm. While Smith's topic was supposed to be the inevitability of hyperinflation, Mr. Meier's speech could have been titled "The Inevitability of Currency Controls." Bob listed numerous laws and restrictions that are already on the books and reminded us that Roosevelt's "bank holiday" was passed in eight hours! Meier urged prudent planners to move some of their assets out of the United States while there is still time.

Gary North of *Remnant Review* was our next speaker. With increasing interest rates and the new social security taxes, he expected a serious recession early in 1981. If a recession fails to materialize, though, we will be off again to high inflation rates, he said.

North added that the United States is very close to war with the Soviet Union—or maybe it's the other way around. He viewed the next 18 months as crucial in this respect. One's portfolio should be "paperless" he said—mostly gold and silver, with T-Bills being a wise investment for the next 18 months. By 1981, currency laws will permit US banks to use foreign government bonds as reserves!—a path to unlimited monetary expansion.

North was followed by Anthony Boeckh. His predictions were precise and backed with detail. He hoped the election was a watershed but pointed out that conservatives have been the superinflators of the recent past.

Tony jumped from politics to the economy without missing a beat and laid out his scenario for the near term, 1980-82. He claimed not to be a bear but said that the Fed overreacted and the squeeze is *on*! If the savings rate increased consumer spending would drop drastically, as would housing, autos, etc. With the contraction in the rest of the world getting tough, he predicted that we will be swimming in oil by 1982. "But"...*but*, he said, the recession will provide surplus capital for a recovery. He was bullish on the dollar and stocks (selected issues, of course) and thought bonds would make a strong move if inflation is eased.



Louis Rukeyser stole the show. His speech was alive with biting satire and beautifully droll humor. He was the highlight of the day!

Albert J. Lowry was a refreshing change of pace. He was buoyantly optimistic on real estate, pointing to mass migration to the "Sun Belt." "These areas will continue to boom," he said. Then he initiated the uninitiated in the many ways to finance real estate—141 in all, he said.

After an energy break, there was Verne Myers. Verne is the granddaddy of the deflationists, I guess. We have had many chances since 1967 to straighten out our economy, but we took the wrong road each time, said he. The industrial nations of the world are broke, and the giant pyramid of debt cannot be paid—although Mr. Myers did not say exactly when the crunch would turn to full-scale depression. He conceded that there may be *one* more inflation, but it will be short-lived. Interest rates of 25-30 percent will surely be the breaking point—cash will be king, and everyone should keep enough cash for one full year.

Lunch...magnificent New Orleans cooking. I hate to eat fast in New Orleans, but Harry Browne was the 3:00 P.M. speaker, and Harry Browne is not to be missed.

Harry began by reminding the attendees that they're "rich" because they had gone against the clichés of the '70s but that this was now the '80s. He likened the gold movement of the '70s to a religious experience, with gold, silver, and Swiss francs the holy trinity. "This is a new world," he warned. "We are no longer unique. We are insiders now....Look out!" Inflation cannot be assumed forever, and inflation does not treat all groups alike, observed Browne.

The dollar was rising for the first time in many years, and Harry found that significant. Gold and silver have come a long way since they were $35 and 92¢ an ounce. There are no sure things on the immediate horizon, he said, pleading with the audience to reevaluate their goals in the erratic '80s.

Following Harry Browne isn't easy, but Gordon McClendon did it. Gordon is the archetypal Texan. His daddy gave him a few bucks, and he parlayed it into a few million. Gordon started us off with a standard opening joke, gave us a little of his, "I'm just an ol' country boy lookin' round the big city" routine, and then got right down to business.

Gordy—we all felt closer to him by then—liked a lot of things; gold, silver cash, and foreign currencies (in a foreign country, of course) should form the "core holdings" of almost 25-35 percent of a portfolio. Gordy knew he wasn't talking

to pikers here—"Take possession like Bunkie, and don't trust them paper stock fellas; but if you must, buy some Australian mining stocks like Kalgoarlie, Hill 50 Gold, or Crusader Oil, or Broken Hill, or . . . or . . . or!"

"And them Swiss bankers? . . . Hell, there is better ones in the Netherlands or Singapore, or you might try United Overseas Bank or maybe try the London Metals Exchange or the Mid-American Metals Exchange or maybe you'd like Alberta. . . . There's always Lloyds of London."

Oh yes, Gordy also recommended other things if you really want to diversify your portfolio, like a western store in Singapore or ancient coins and the US Electric Car Company. But, he said after his short list of good buys, remember to save five percent for things like Picassos, and Van Goghs or pre-Columbian artifacts and other fine collectibles. We should have Gordy buy Egypt, take possession, and solve the Mideast crisis. If five percent of your portfolio could buy a couple of Goyas and a Pieta you need to listen to McClendon and learn! As for the rest of us "poor boys," I will mail you the phone number of his broker in Sydney for $10 and a self-addressed *stamped* envelope. Or his broker in Singapore, or. . . .

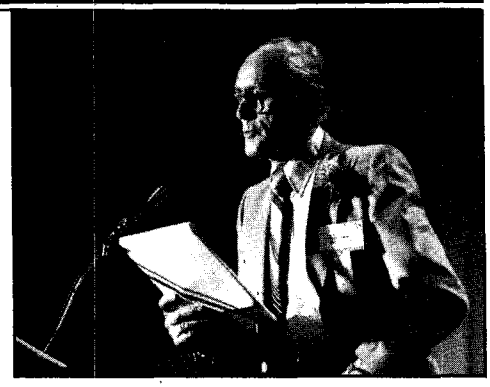
Larry Abraham waded through the ankle-high B.S., calmly took the microphone, and immediately brought our attention back to the USA. "Productivity is down, money for research and development is off 25 percent, our exports are down 35 percent, bonds, savings down, and fixed rate loans are a thing of the past." What's the answer? Recapitalization! How do we profit from it? Larry tells all.

Seems there has been a revolution in financing. One person leases, one person has equipment, and another may have the skills, and they all have the makings of a *Limited Partnership*—in drilling, mining, agriculture. And there are profits aplenty in this arrangement, noted Mr. Abraham, and lots and lots of tax advantages.

Lloyd McAdams was the next speaker; his topic, "Gold and Interest Rates." What is the relationship between gold and interest rates? Why, they move together! If they are opposite, something *has* to change, but gold never changes first. Got it? He kept on trying to explain.

Gold is exactly inverse to AT&T, with gold being ahead. But what determines the rate of interest? Funny you should ask. With no inflation, the normal interest rate is two percent (real). Remember when one ounce of gold bought a tailored suit or 20 barrels of oil? Or when a hundred ounces would buy a house? Neither did I, but just add the inflation rate to two percent, and you'll have what *should* be the rate. "Level is irrevelant," said Mr. McAdams; "change is important." And when interest rates go up, bonds go down. Okay, let's hear it. . . the *i* rate connects to the gold rate, the gold rate connects to the phone rate, and the bonds come tumbling down, down, down. One more time in the key of Au!

Jesse Cornish noted that we have created a "legacy of debt" to leave our heirs, and most of his time was spent repenting.



Our last speaker of the day was Mark Skousen. Mark is very bright and very casual. His forte is financial privacy, and I was disappointed that he didn't speak on his area of expertise. But he did deliver his promised speech, "30 Tips in 30 Minutes." His workshop where he was more one-on-one was far better.

A long day of speeches was over, and three workshop periods were ahead after dinner. The schedule was demanding and accurate, and I was impressed with Jim Blanchard's organization. But I was also impressed with the food at Commander's Palace in the Garden District just west of the convention area. I made the workshops, but what a horrible thing to do to a great meal!

Howard Ruff was the first speaker of Saturday's session. He is a good speaker and knows how to get control of an audience. His strong suit this day was politics. "It was *not* a landslide," said Ruff. "Only 52 percent of eligible voters voted, and Reagan only got 51 percent of those. Forty-seven million people still get a check from government, and the recent recovery is only a blip in the coming recession." He too sees 1982 as the crucial year. "A deep recession with recovery in late 1981," said Ruff. He forecast that silver would rebound soon and gold would continue up.

Montague Guild followed Ruff. Investors must be aware of sociopolitical factors and their increasing volatility. "We must assume a 15 to 20 percent inflation rate," and "OPEC has ceased to exist." He projected that oil prices would rise, defense metals would rise, energy and high technology stocks would rise, and gold and silver would be volatile. He likes Australia and Japan for their strong economies.

The next scheduled speaker was Paul "Crash of '79" Erdman. Erdman never did show, but lame duck Secretary of the Treasury Michael Blumenthal was moved up to the number three spot. Blumenthal is the enemy, and I believe the vast majority of the audience held that view. Yet they remained polite—not a single boo throughout the speech—and gave him an applause farewell.

Mike really believes that oil causes inflation—*really*! "Tax cuts for individuals are wrong" and "We need to save more so we can invest more" rolled right off Mike's lips with no stuttering.

Up stepped Dr. Fred D. Collender to fascinate the entire audience with his knowledge of South African stocks. If you want to know more about S. A. gold mines than you ever knew anybody knew, ask Dr. Collender. After Fred, we took a break.

Robert Kinsman opened the second session on time, as usual! Besides, Robert Kinsman is a systems analyst. He described the economy as a system (naturally) with a "flaw." He then likened it to a "shower"—really he did—complete with hot and cold knobs. "Wild fluctuations are the normal function of a system trying to rectify the

(Continued on p. 81.)

THE NEW MONEY MARKET: Savers' Liberation

By William E. Donoghue

AMERICANS' HOPES AND dreams have always been based on the premise that by saving their money carefully they could fulfill their financial goals. Conventional wisdom said to place your money in the bank and it would grow. Your savings would be safe—the Federal Deposit Insurance Corporation (FDIC) guaranteed it. For more ambitious savers, government and Triple-A corporate bonds provided an alternative investment. Saving was all so easy and pat. But then something went wrong.

After the early-warning signs of a 9 percent peak in the prime rate in 1970 and a 12 percent peak in 1974, we were lulled into the comfortable doldrums of the 5-6 percent rates of 1975 and 1976. Then the "interest rate roller coaster" started to climb, and the conventional wisdom no longer held true. But bank savings accounts still paid 5 percent. Bond values began to erode. And the average person on the street had no idea where to look for the high interest rates he had heard about. As concerned savers began to see the effect of escalating inflation, demands for a higher rate on savings accounts poured into the Federal Reserve. The passbook savings account rate was increased to 5¼ percent.

SAVERS' LIBERATION DAY

On June 1, 1978, money market certificates were authorized. Now, the public could obtain a relatively free-market rate of return on their savings—provided they had $10,000 or more

The banks don't like them, but the new money market instruments offer some of the best deals around.

to work with and were willing to tie up that money for six months. It was a start.

The banks and the Fed agreed that the name "money market certificate" was a good name for a certificate whose rate was tied to the six-month Treasury bill rate. They forgot, however, that the money market was and had been a well-kept secret. Now the secret was out.

Up until then, the money market had been the private preserve of the affluent institutional investor with $100,000 or $1 million. In this situation, the banks had a substantial advantage—they took in small savers' money by the billions, paid only 5¼ percent and reinvested in the money market at substantially higher rates with little or no risk. This amounted to a dramatic and unwarranted subsidy of the banking industry, worth billions in profits at the expense of ordinary savers. Banks were able to call 5¼ percent "the highest rate permitted by law" at a time when free-market rates would ride as high as 20 percent plus.

Once the cat was out of the bag and news of the money market spread, new investment instruments developed. Recognizing a way of fighting the inflation ravaging their savings, individual savers and investors moved over $600 billion of savings monies from traditional savings accounts into "the new money market" between June 7, 1978, and April 1, 1981.

The new money market includes several types of investments:

- *Money market certificates.* The $10,000-minimum, 6-month savings certificates offered by the banks and thrifts. MMC rates are tied to T-bill discount rates. There is a three-month interest penalty for early withdrawal.
- *Small saver certificates.* The no-legal-minimum, 30-month savings certificates offered by banks and thrifts. SSC rates are tied to 2½-year Treasury notes, and there is a six-month interest penalty for early withdrawal.
- *Money market mutual funds.* The usually $1,000 minimum investment, daily dividend-bearing mutual funds. Money funds offer convenient check and telephone redemption features and have no penalties for early withdrawal. These are normally offered through the mail.
- *Treasury bills.* These are, in effect, short-term loans to the US Treasury and are backed by "the full faith and credit of the US government." T-bills are offered in $10,000 minimums (and $5,000 increments over that) and in maturities of 3, 6, and 12 months.
- *Unit investment trusts.* A generic title for several types of trusts. "The Corporate Income Fund," offered by Merrill Lynch and a few other brokers, is the only currently offered example of this vehicle. These come in $1,000 units and are excellent investments in a falling interest rate environment.
- *Savings bonds.* The traditional patriotic, low-minimum, highly safe savings vehicle. Savings bonds' yields are not competitive, but they still attract a

portion of savings money.

Note: *Not* included in "the new money market" are old-style savings certificates and passbook savings accounts.

PANIC IN THE BANK RANKS

The banking community has by its very nature and by regulation insulated itself from competition until recent years, when challenged by two significant new developments—commercial paper and money market mutual funds.

Commercial paper—or, as the banks love to call it, "corporate IOUs"—has emerged as a very effective way to remove the middle man—the banker—from corporate lending. Very simply, corporations and investors lend to each other at lower rates than the banks can offer. The bankers, of course, do provide the corporations with the lines of credit necessary to back this paper. This is a fine example of how the financial markets are adapting to changes and developing more efficient markets.

The emergence of money market mutual funds is perhaps the biggest

THE TEN BEST DEALS IN THE MONEY MARKET

***Best Deal #1*—Money Market Mutual Funds**

Money funds offer an ideal combination of safety, liquidity, and yield. They offer convenience and attractive returns; in addition, you can get your money *out* easily and efficiently when you want to withdraw it.

***Best Deal #2*—Merrill Lynch Corporate Income Fund, Short-term Series (CIF)**

Can't Merrill Lynch come up with a better name for these unique 3- and 6-month unit investment trusts? This investment outperforms Treasury bills and money market certificates (MMCs) in a falling interest rate environment, and CIFs only cost $1,000 per unit. Although Merrill Lynch is the only firm currently creating these short-term trusts, other brokers sell the Merrill Lynch trusts.

***Best Deal #3*—Variable Annuities Using Money Funds**

These particular annuity programs are the best way for people to defer taxes on their money fund earnings without having to set up an IRA or Keogh plan. Tax-deferring money market income is not the most exciting benefit that variable annuities offer, however. To get the most out of these annuities, you should choose one that offers an equity fund (stock fund) *and* a money fund. Then you need good market timing advice, so you know *when* is the best time to switch between the two funds. Once you know when to switch, you've got a real chance at building your retirement nest egg into an investment that can beat inflation and the IRS.

***Best Deal #4*—Merrill Lynch's Cash Management Account (CMA)**

Here's another Merrill Lynch product. But what can you say to an investment product that earns money market interest on every penny in your brokerage account that's not invested elsewhere, allows you to charge items and services on a special VISA card, allows you get cash advances—in minutes—from thousands of banks all over the world, and even lends you money when you overdraw your cash account? Granted, CMA is not for everyone. You need $20,000 in cash or the equivalent amount in securities to open an account.

***Best Deal #5*—Money Fund Checking**

For a small business account or for individuals' larger personal bills, or even just to fund a checking or NOW account, there is simply no service available to consumers that allows them to earn a money market rate of return on check float. (Money funds also allow subsequent investments, unlike other money market investments.) So you can earn high yields on the money you would ordinarily keep in a checking account in order to maintain adequate funds for incoming checks. Special commendation should go to the following funds that offer $250 minimum check amounts instead of the normal $500 checking minimum: Money Market Management, NEL Cash Management Account, John Hancock Cash Management Trust, Dollar Reserves, and INA Cash Fund, Inc. All require $1,000 minimum initial investments except INA Cash Fund, Inc., which requires $2,500.

***Best Deal #6*—Mutual Fund Switching**

One of the best deals in the money market is the ability to get *out* of a money fund quickly to reinvest in another type of mutual fund when it's appropriate. This makes the exchange, or "switch," privilege that many funds offer a very attractive feature. While most money funds offer telephone switching privileges, some require a mail notification. But with express-mail services at your post office, switching by mail will not unduly delay your investment.

***Best Deal #7*—Tax-Exemption (State and Local) on T-Bill Interest**

An added plus in high-tax states, such as New York and Massachusetts, is the fact that all income from T-bills is exempt from state and local taxes. This is another advantage T-bills offer that's not available with MMCs. T-bills' tax advantage can sometimes weight the scales against a unit investment trust—short-term variety (see Best Deal #2). If you are in a high tax bracket, be sure to figure out every tax break on money market investment earnings.

***Best Deal #8*—Tax Exclusion of the First $200-$400 of Money Fund Dividends**

This year (1981 tax year) money fund dividends will qualify for the exclusion of the first $200 ($400 if married and filing jointly) of dividend and interest income. Previously, money fund dividends did not qualify for this exclusion. Here is one instance in which the small saver got a good deal in Washington, D.C.

***Best Deal #9*—30-Month SSCs with Loophole Loans at a "Net" 1% Interest**

Did you know that banks can offer you a 12 percent checking account today? They can, but they won't—they can't afford it. However, banks *will* permit you to buy a small savers' certificate (SSC) at a maximum of 12 percent (12.94 percent with compounding at a thrift institution, ¼ percent less at a bank) against which you can borrow at 1 percent over the stated rate on the SSC. We call this "interest rate insurance." Invest in an SSC at 12 percent and you'll never earn *less* than 12.94 percent—if rates go higher, borrow your money back, invest it elsewhere, and pay the bank a net 1 percent on the amount you borrow. Not a bad deal. But you may have to search to find a bank offering these loophole loans. With today's high interest rates, however, there's no point investing in an SSC until interest rates decline quite a bit.

***Best Deal #10*—One-Year T-Bills and Longer-Maturity Treasury Offerings**

When interest rates decline, you can get T-bills with longer maturities than MMCs or unit investment trusts, which usually offer 6-month maturities. T-bills with longer maturities give you a bit more leverage to earn higher yields. However, you can accomplish much of the same effect when you invest in Capital Preservation Fund's Treasury Note Trust. When rates fall, TNT is a dynamite investment (excuse the pun).

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threat, as the bankers see it, to banking. From assets of $3.3 billion in September 1977, the money market funds have grown to over $100 billion. There are now 148 banks and 70 savings and loan associations with over $1 billion in deposits. There are 25 money funds that can claim over $1 billion in assets.

The convenience and safety of the money funds has attracted money from several sources: bank trust departments, institutional investors, corporations, pension plans, brokerage accounts, and, of course, individual savers. The high yields offered by the funds are derived from their highly safe money market investments, including commercial paper.

For their part, bankers are concerned about the money funds taking money from those juicy (for the bank) 5¼ percent savings accounts and lending it to corporations (and back to the banks) at money market rates. In an attempt to protect their "savers' subsidy," the banks have attacked the money funds.

First they tried to win federal restrictions on competition, but in January 1980 the banking regulators, the Securities and Exchange Commission (the money funds' regulators), and the Senate Banking Committee agreed that the best thing to do was not to regulate money funds further but to deregulate banks. Shortly afterward, Congress passed the Monetary Control Act of 1980, providing the legal authority to phase out the law (Regulation Q) that sets the "highest rates allowed by law." The catch was that this phase-out process would take six years. And in fact the Depository Institutions Deregulation Committee, created to oversee the deregulation, has shown a reluctance to free up the banking industry and has even *added* regulations.

After failing at the federal level, the banks have taken their battle to the states, appealing to legislators to protect local interests by passing laws to regulate "unregulated and uninsured" money funds. The first major attack took place in Utah, and it backfired on the banks. Of the 20,000 Utahans who owned shares of money market mutual funds, 7,000 contacted their state legislators—99 out of 100 protesting money fund restrictions—and the bill was defeated. It was close, though, demonstrating the power of the banking lobby.

The lobby's strategy is this: they know that money funds are forbidden by law to discriminate against any class of investor (even at the request of state legislators). If state legislators were to require that reserves be kept for money fund shares owned by their citizens, that their citizens be restricted from using the funds' convenient check-writing services, or that any other special discriminatory treatment of their citizens' investments be observed, the SEC would not allow the money fund to do business in that state. Money funds are an excellent example of financial democracy, since they are not allowed to treat any investor—no matter how large or small—differently from another. What the banks are asking state legislators to do is require money funds to provide the investors in their state with *inferior* services—all to protect the banks' right to provide what are clearly inferior services.

It will not work. The Utah experience shows that people will fight for their right to a free-market rate of return. The "Savers' Liberation Movement" will only expand, and savers will demand more and better financial services.

BANKING ON COMPETITION

There's no denying that bankers face a challenging future. Deregulation of the industry is proceeding slowly and cautiously, while the free market passes them by. Interest rates are becoming more and more volatile and unpredictable, and the price of wrong decisions is becoming more and more costly.

In this kind of economic environment, the public's confidence in the banking system is essential. It can do the banks no good to set themselves up in the public eye as the "bad guy" by attempting to strangle and strong-arm their competitors nor to spend their time fighting for outdated and obsolete goals such as the banks' oft-demanded "level playing field."

Banks and money funds are not equal. They are two different and complementary institutions. The two can coexist and provide services to a wide range of customers.

It seems to me that the banks should not participate in the short-term money market deposit business. It is simply too volatile and risky a business; borrowing in the short-term market to finance long-term investments was what nearly bankrupted First Pennsylvania Bank last year. Instead, banks should be promoting the 30-month SSCs, rather than the 6-month MMCs, to get their assets and liabilities more in line. With over 25 percent of *M2* (the broadly defined money supply) consisting of 6-month certificates—neither profitable nor stable bank offerings—it's time banks put a cap on how many of these certificates they'll issue.

And if the regulators were to lift the 12 percent limit on the 30-month SSC rate, banks could sell these certificates more easily. This would be a better deal both for banks (more stable and profitable deposits) and for investors (a fairer rate of return for the long-term deposit). This is what the banks should be fighting for instead of making mindless attacks on the money funds.

Besides, the facts show that money funds have put more money in banks than they have drawn away! Only about $20 billion of the money funds' assets came from savings accounts, but over $50 billion has been put into bank deposits and investments. The bankers will say, "That's true, but at a higher rate and in the larger banks only." And they're right; the former is a fact of life and the latter is being mollified by the flow of money fund investments back to some of the smaller banks through investments in small bank CDs (only up to the FDIC-insured $100,000 limit, of course, to be consistent with the money funds' safety and investment quality restrictions).

The process of adapting to the realities of the financial marketplace has been slow but sure, and if given a free market in which to operate, the progress will continue. In the meantime, you, as an investor, should write to your state and federal legislators to state your position on the banks' campaign to free themselves of Regulation Q sooner rather than later and on encouraging the free market instead of restricting money funds.

If President Reagan's budget cuts are not taken seriously and turn out to be a case of "rearranging deck chairs on the Titanic," both the banks and the money funds will need all the free rein they can have to react quickly and decisively to the changing marketplace. Savers' Liberation is your movement; support it. ◻

William Donoghue is executive director of the Cash Management Institute and publisher of the Money Fund Report, *the* Cash Manager, *and* Donoghue's Moneyletter. *His book,* William E. Donoghue's Complete Money Market Guide, *is now a national best seller.*

Preparing for with a

By Harry Browne and Terry Coxen

OVER THE NEXT 10 YEARS, one investment will do better than all the others; no mix or combination of investments will be able to beat it. Unfortunately, none of us knows for sure what the big winner will be. Each of us may make a guess—and, because there are so many of us, some of the guesses will be right. But that won't mean that anyone *knew* the future—only that a few people estimated shrewdly or guessed well.

Uncertainty is a fact of life. The world is too complicated for anyone to be able to project all the details of the present into the future and predict where the world will be 10 years from now. But that shouldn't make you feel helpless—only humble. With a little understanding and with a good deal of financial diversification, you can prepare for the unknown. Understanding the economic principles that are at work will shield you from expectations that are based only on hope and habit—including some expectations that are widely held.

And financial diversification can protect you from what can't be foreseen. A diversified portfolio should reflect your expectations by emphasizing the investments you believe will do best. But it should also include what appear to be second- and third-best investments, as well as small amounts of hedges that probably will lose money if your favorites pay off. It isn't easy to put money into hedges you don't expect to do well, but there are two reasons that you should.

First, the future may not match your expectations. If it surprises you, the hedges will save you from a disastrous loss.

Second, even if the world 10 years from now is about as you expect, the road from here to there won't be a straight line. Your favorite investment will have ups and downs along the way—and each time it's down, you may wonder if it will ever get up again. The hedge investments provide comfort and security during those times by partially offsetting the temporary losses on your favorites.

The surprise factory in Washington will continue to be the main source of investment uncertainty—as the government looks for new ways to stitch over old problems. You can't anticipate what the government will do next year or even next month—although some actions will be less surprising than others. And even if you knew what the government would do, you still couldn't be certain of the investment effects or of their timing.

If you have opinions about the future, you should act on them. But it's a mistake to confuse opinions with knowledge. Our purpose here is to design a portfolio that emphasizes your expectations while arming you against surprises.

TWO PORTFOLIOS

We think it's valuable for most investors to have two portfolios—what we call a Permanent Portfolio and a Variable Portfolio.

The Permanent Portfolio relies on balance and a long-term perspective. It contains investments that should do well in differing circumstances; thus it should have some winners no matter what happens.

Since it's designed for a long time frame—perhaps 5 to 15 years—the investments won't change. They're chosen to fit your broad expectations for the next decade or more, without regard for the ups and downs that will occur along the way—but with respect for the possibility that your long-term expectations may be mistaken.

Once a Permanent Portfolio is established, it calls for little further attention. New money may flow into it from your business or salary income, or money may flow out of it for you to live on. And, as investment prices change, small purchases and sales will be made every year or so to reestablish the percentage breakdown that you originally decided on. But such transactions are mechanical; they aren't prompted by your opinion of short-term investment trends.

The Variable Portfolio is an investment budget devoted to a shorter time frame. It might be used to buy gold if gold appears to be entering one of its periodic two-to-four-year bull markets. Or you might have various budgets within the Variable Portfolio for short-term speculations in a variety of markets that interest you.

The Variable Portfolio's purpose is to take advantage of what you believe to be the current trends in the markets. And any investment made from it will be sold as soon as the trends seem to have changed—which may be tomorrow or three years from now.

The distinction between the two portfolios is important. For example, you might hold some gold as a fixture in the Permanent Portfolio. And during times you expect the gold price to rise, you might have gold in the Variable Portfolio

Excerpted from the book *Inflation-Proofing Your Investments*, published by William Morrow and Company, Inc. Copyright © 1981 by Harry Browne and Terry Coxon.

the Unpredictable Personal Portfolio

An excerpt from the just-published book "Inflation-Proofing Your Investments"

as well. When the temporary uptrend seemed to have ended, you would sell the gold from the Variable Portfolio. But you wouldn't sell the gold from the Permanent Portfolio, because it remains there to protect you against surprises that might send the gold price soaring.

The Permanent Portfolio is your financial fortress—designed to protect you from all the uncertainty and surprises of the next decade. If your expectations for the decade prove to be generally correct, the purchasing power of the Permanent Portfolio will increase, but it probably won't create a new fortune for you.

The Variable Portfolio is your opportunity to profit from shifting trends. If you manage it well, it might make you rich. But if your trading decisions are wrong, it will lose money—and you'll be glad you have the Permanent Portfolio to back you up.

DIVISION BETWEEN TWO PORTFOLIOS

The division of funds between the two portfolios depends solely on how well you believe you can manage the Variable Portfolio. For some people, the Permanent Portfolio should have all of their assets and the Variable Portfolio none—because their investors have no interest in making short-term investment decisions. Others might have three-quarters in the Permanent Portfolio—or one-third or one-eighth. It depends on your attitude toward risk and on the confidence you have in your ability to succeed where others often fail.

The division is up to you. The only breakdown we believe makes no sense at all is to have everything in the Variable Portfolio and nothing in the Permanent Portfolio. We think everyone needs a Permanent Portfolio of some size as a backstop against a run of bad short-term investments.

One benefit of having two portfolios is that it clearly limits the money available for short-term trading. There will be only so much you can lose if the markets go against you. If the Variable Portfolio does lose money, it should be replenished only with new funds that become available—not by transferring money from the Permanent Portfolio.

When you have the Permanent Portfolio to back you up, you can afford to act more decisively with the Variable Portfolio, knowing that you aren't risking everything you have. This may improve your trading decisions by freeing you from any sense of desperation.

> The Permanent Portfolio is your financial fortress—designed to protect you from the uncertainty and surprises of the next decade.

So you must first decide how much of your assets, if any, to risk in the Variable Portfolio. The rest of your net worth is the Permanent Portfolio, and that's what we're concerned with here.

INVESTMENT INCOME

As we choose the investments that belong in the Permanent Portfolio, there will be no reference to investment income. It's as though income didn't matter—and it doesn't when making investment decisions.

It is common for someone who's retired to choose investments that will earn enough interest and dividends to cover living expenses. We think the effort in doing so is wasted and may lead to the wrong investments.

Your first consideration should be the safety of the capital that's precious to you. If the capital is lost, your income will be zero.

The second consideration should be the total return—income *plus* the growth of capital. The form the total return takes, whether mostly income or mostly capital appreciation, doesn't matter—except as it affects your tax bill. And your tax bill almost certainly will be lower if the return is in the form of capital appreciation.

It isn't the traditional advice, but we believe you should choose your investments without regard to the need to

cover living expenses. You can provide the necessary income with a mechanical arrangement *after* you decide which investments make the most sense.

Suppose, for example, that you have $100,000 and you need $10,000 per year (before payment of income taxes) to live on. The traditional approach is to invest the $100,000 so that it earns $10,000 in interest and dividends. But the only requirement is that $10,000 be available to you; it doesn't need to come from interest and dividends.

Suppose that instead of basing your plans on income, you invest the $100,000 in investments that pay no interest or dividends at all but that appreciate over the long term at an average rate of 10 percent per year. You can cover your living expenses just by selling some of the investments each year. In any year, the investments may appreciate by more or less than 10 percent. All that's needed is that they appreciate by an *average* of at least 10 percent per year.

"Living off capital" may sound like living beyond your means, but it needn't be so. If you don't sell assets for living expenses faster than your portfolio is appreciating, your capital won't shrink—and it may even grow. What you can afford to spend without diminishing your capital is its total return—income plus appreciation—not the amount that comes to you marked "interest" or "dividends."

In fact, it may be imprudent and extravagant to treat interest and dividends as spending money. If, for example, you have your entire portfolio in Treasury bills, your income may be 10 percent per year. But if you spend it all, you're really dipping into capital. Even though the face value of the T-bill holdings is steady, the purchasing power is declining from year to year.

A further benefit of "living off capital" is that the money withdrawn from your portfolio is taxed at capital-gain rates rather than at unearned-income rates. And even if you withdraw an amount equal to all the portfolio's appreciation

THE INVESTMENT MENU

What are your expectations for the next 10 years? Will there be a *leveling off* of inflation, with the rate staying somewhat constant? An inflation that *continues to rise* in an irregular pattern, as it has been doing for the past 20 years? A *runaway inflation* with rates of 100 percent or more, possibly leading to the total destruction of the dollar? A *soft landing*, in which inflation slowly declines to zero? Or a *deflationary depression*, in which inflation ends abruptly?

Whatever your expectations, your portfolio should be designed to match them for the next 10 years or so—without being vulnerable to the surprises that will inevitably occur along the way. Once chosen, the portfolio should be able to take care of itself, without constant surveillance on your part.

The accompanying chart reviews the various investments you might include in your portfolio and indicates our opinion of how each one should respond to the possibilities for inflation. Of course, no investment's future depends on inflation alone. Yet it's important to know what inflation tends to do to an investment, so that you can construct a portfolio in line with your expectations for inflation and so that you can select investments that will rescue your portfolio if your expectations turn out to have been wrong.

But tendencies are not certainties. If you realize that many factors will influence each investment's profitability, you'll be encouraged to diversify within each broad investment category.

		Leveling Off	Irregular Rise	Runaway	Soft Landing	Deflationary Depression
Liquid Equity Investments	Gold bullion, coins	fair	excellent	excellent	poor	good/poor**
	Silver bullion	good/excellent	good	mediocre	good/excellent	poor
	US silver coins	good/excellent	good	excellent	good/excellent	poor
	Swiss francs*	fair	good	excellent	mediocre	very poor
	US stocks	mediocre/good	poor/mediocre	poor	excellent	very poor
Illiquid Equity Investments	A business	mediocre/good	poor/mediocre	poor	excellent	very poor
	Real estate	mediocre	good	mediocre	poor	very poor
	Collectibles	mediocre	good	mediocre	poor	very poor
Liquid Dollar Investments	US T-bills†	mediocre	poor	very poor	mediocre/good	good
	Lower-grade short-term instruments†	mediocre	poor	very poor	mediocre/good	very poor
	US T-bonds and high-grade bonds	mediocre/good	poor	very poor	good	excellent
	Lower-grade long-term bonds	mediocre/good	poor	very poor	good/excellent	very poor
Less-Liquid Dollar Investments	Mortgages owed to you	mediocre	poor	very poor	fair	very poor
	Fixed-dollar annuities and pensions††	mediocre	poor	very poor	good	poor

*assuming Swiss inflation rate less than 5%
†assuming interest income is not protected from taxes
**good in the early stages, poor in the later stages
††includes cash-value life insurance

for the year, part of the proceeds of what you sell will be a tax-free return of capital. If half the proceeds are investment profit, for example, the effective tax rate on what you spend can't be more than 14 percent—because the maximum capital-gain rate is 28 percent.

Of course, you must choose the investments carefully. But you'd have to do that even if you restricted yourself to income-paying investments—and you'd have less of a selection from which to find the right investments.

MODEL PORTFOLIOS

One of the stock features of investment books is the model portfolio—a program recommended for everyone of a given age, wealth, income, marital status, or other description, as though the advice were coming from the Census Bureau. We doubt that belonging to one of these stock categories signifies anything about what to do with your money.

A bad investment is bad—no matter who owns it. If utility stocks are a bad investment, for example, they don't become a good one in the hands of a retired person who believes he needs the dividends. And the models can be dangerous; doing what's recommended for the "middle-aged businessman"—just because you are one—may give you a false sense of security.

In many important ways, you have nothing in common with anyone else in the world. The considerations that should dictate your investment choices are unique to you; they shouldn't be overruled by an author's discovery that you belong to a certain demographic herd. Among the things to consider, four in particular should be stressed.

1. *Expectations:* You have expectations about the future; at the least, you have general opinions about the course of inflation and the economy. And there are certain dangers that concern you more than others. You won't be comfortable with your investment portfolio if it doesn't reflect these expectations and concerns.

2. *Risk:* Only you know what chances you're willing to take. What you can afford to lose without changing the way you live will depend on your net wealth, your income, and how much you need to live on. These things are measurable. But there's no way to measure the grief you'd feel from a loss or how painful it would be for you even to worry about the possibility of a loss. And only you know how strongly you feel you need to increase your wealth.

3. *Tax situation:* If a tax shelter for interest income (such as a pension plan, closely held corporation, or foreign trust) is available to you, you can afford to hold enough dollars to be properly prepared for a deflation. If no such shelter is available to you, however, deflation protection will be costly; you might decide to skimp on dollar holdings and take your chances, or you might choose to pay a higher tax bill as the price for greater security.

4. *Personal effort:* You won't be comfortable with your investment plan if it demands more of your time and attention studying the economy and the markets than you're willing to give. You may enjoy watching investments and betting on your opinions—or you may find the subject and the risk a burden. An investment plan may be brilliant, but it won't be profitable if you won't devote the attention needed to make it work.

These considerations are subjective. They involve feelings that can't be reduced to numbers and that prevent anyone but you from saying reliably the kind of investor you are. Model portfolios are for Monopoly money.

CREATING THE IDEAL PORTFOLIO

It would be presumptuous for us to say we know how you should invest your money. We don't know anything about you.

We've found that it requires a minimum of two hours of conversation with a client just to get a picture of his attitude and circumstances. We can't make suggestions until we've asked enough questions to understand the client's objectives, attitude toward risk, expectations for the economy, tax problems, and many other factors. And very often, the answers to early questions are amended as the discussion digs deeper.

Obviously, we can't do that here, but there's much that we can do. Any consultation with a client is a joint effort; we make suggestions and call attention to realities, but the client always makes the final decision—just as you must make the final decision.

And the final decision is always based on one essential test. Before designing an investments program, you need to know the characteristics of the various investments on the menu and how to buy each investment; you need to crystallize your attitude toward risk and your opinions about the future; and you have to consider the tax consequences of any changes you make. But when these considerations have been integrated into a first draft of a portfolio, the essential test must be applied. And that test is simply: *How comfortable do you feel about the plan?*

You can provide the necessary income with a mechanical arrangement after you decide which investments make the most sense.

If an investment in the portfolio makes you uneasy, maybe it should be reduced in size or replaced by another that serves the same purpose. If you feel you're not taking advantage of an opportunity you see, perhaps the budget for certain investments should be increased. The portfolio must be adjusted until you *feel right* about it—until you feel that it provides the combination of safety and opportunity you want.

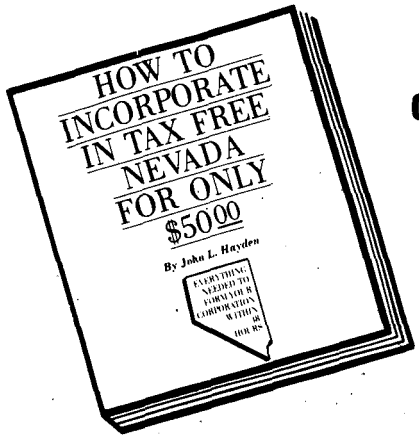
You don't have to be a financial expert to do this. Expertise might allow you to orient your portfolio more toward profit and less toward safety, but you don't need expertise to determine whether you're comfortable with a given portfolio. Even if you have no idea what the markets will do in the coming years, you can arrange your portfolio to cover all the possibilities—thus assuring that you won't lose much of what you have now.

YOUR PORTFOLIO

We can begin now to create the portfolio. To start with, we're not interested in what you own. For now, you need only to determine roughly how much you're worth. If you sold all your present investments for cash today, approximately

(Continued on p. 82.)

THE GREATEST VEHICLE TO WEALTH



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Looking back through American history, the great fortunes of the Gillettes, the Wrigleys, the Rockefellers, the Vanderbilts and the DuPonts could never have been made without the use of corporations. In this country, the corporation has been the greatest vehicle to wealth.

Today, more than 30,000 new corporations are formed every month. The majority of these new businesses are one-man corporations, working men and women who want the same advantages as the successful businessman and major corporation. They recognize the importance and benefits of incorporating and have made the "all important" decision to act on the opportunity.

Nevada compares more favorably to corporate owners than any other state. Nevada does not have a corporate income tax, a franchise tax or even a corporation commission. With numerous benefits like these, the new business owner is already profiting. Learning more about Nevada now could save considerable time and money in the future. Wouldn't it be nice to know your new business won't be burdened by heavy regulations and taxation before it even has a chance to get off the ground?

This revealing "how to" book will give you hundreds of precious new ideas invaluable to any new business owner. It will show you how to form a corporation in the comfort of your home, without a lawyer and for only $50. Incorporating is easy, just follow the simple instructions and forms included in the book. Now is the time!

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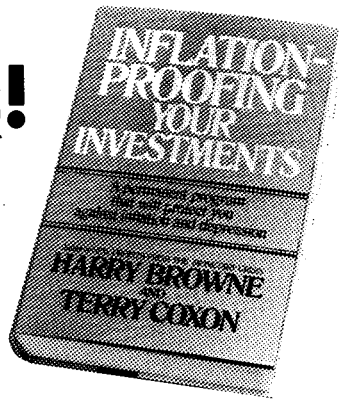

HARRY BROWNE'S
surprising new investment ideas give you both safety & profits.

It's a permanent program that doesn't need constant attention or revision.

If you're like most people, you're concerned about inflation, but you don't have a lot of spare time to devote to your investments.

You do want to protect your hard-earned dollars. You want to survive these perilous times and even come out ahead — perhaps way ahead. You want safety. You want to pay less in taxes. And most important, you want peace of mind.

If this is an accurate picture of your situation, then *Inflation-Proofing Your Investments,* the new 1981 book by Harry Browne, is for you.

A capsule preview of this extraordinary new book.

Written in collaboration with his colleague, Terry Coxon, this is Harry Browne's most thorough, comprehensive and detailed book. Going well beyond his earlier best-sellers, he packs into this new volume more immediately useful advice, more facts and specifics, than ever before.

Inflation-Proofing Your Investments begins with an explanation of inflation: what it is and how the inflationary process operates. He discusses five possibilities for the future: a stable inflation rate, rising inflation, runaway inflation, a "soft landing," or deflation/depression.

Next, a chapter is devoted to each investment category: gold, silver, foreign currencies, Swiss banks, collectibles, real estate, stocks, U.S. banks, Treasury bills and bonds, and money market funds. Each is explained in detail: how it works, what the risks are, the situations for which it is best suited, how it fits into a balanced portfolio, and what actions to take to execute a purchase or sale. In addition, you're shown exactly how each investment would perform under the five possible future economic conditions.

Taxes on your mind?

An entire section of the book — seven chapters — is devoted to cutting taxes on your investment income and profits. Here's where you'll find all you need to know about deferring taxes, creating your own pension plan, incorporating, converting interest into capital gains, deferred annuities, municipal bonds, tax shelters, tax havens, tax-deductible gifts to your children and more.

Finally, everything comes together in the last section, "Creating a Portfolio." This is where you'll learn how to take the book's incredible wealth of information and use it to custom-tailor the investment portfolio that is ideal for you and you alone.

A few specific ideas you'll learn.

- Techniques for reducing — or eliminating — taxes.
- 32 stocks that will lead the next bull market.
- How gold and silver fit into a safe portfolio.
- Real estate: many unsuspected pitfalls.
- Why *not* to hold gold in a pension plan.
- How to divert before-tax dollars to others.
- Dangers in collectibles.
- Creating your own foreign corporation.
- Two low-cost ways to capitalize on a stock market boom.
- Why America's banking system is in trouble — and how you can avoid it entirely.
- A low-cost "insurance plan" that pays off if your company is hit by a depression.
- Making your children's education tax-deductible.
- When to borrow and when not to.
- 1929-type depression: how it might happen.
- How best to use a Keogh, IRA or corporate pension plan to avoid taxes — and why retirement is the last thing the plan should be used for!
- How to be protected against almost everything — without paying a high price for safety.
- And much more!

About the Authors.

HARRY BROWNE is perhaps America's best-known investment advisor and one of the few truly original thinkers in the investment field. His best-selling books include *How You Can Profit from the Coming Devaluation, You Can Profit from a Monetary Crisis,* and *New Profits from the Monetary Crisis.* He also writes an investment newsletter, *Harry Browne's Special Reports.*

TERRY COXON is a specialist in long-term portfolio and tax planning. He has worked closely with Harry Browne since 1974.

How to construct the ideal portfolio—one you can "walk away" from.

Inflation-Proofing Your Investments will show you, step by step, how to structure the ideal portfolio, specifically designed for your own unique needs and circumstances. You'll learn how to construct a portfolio so well balanced that you can practically forget about it!

You'll have a low-risk, low-tax portfolio you can "walk away" from — because its built-in mechanisms make it virtually self-regulating. Such a program, properly constructed, will see you through any economy. Whatever happens, you'll be protected.

Your Satisfaction is Guaranteed!

Just published by William Morrow and Co., *Inflation-Proofing Your Investments* is, like Harry Browne's earlier books, headed for the best-seller lists. It's a hardbound, 512 page source of new ideas and insights. It has an excellent glossary defining investment terms, and an unusually detailed index to help you rapidly locate whatever you need.

In addition to all the material described above, *Inflation-Proofing Your Investments* also has an extensive, critical resource directory. Included are recommended books, magazines, newsletters, advisors, tax planning services, coin dealers, money market funds, Swiss banks, and more. Names and addresses are listed.

Whether you have $500 or $5,000,000 to invest, Browne's book is a "must read" for all investors. If you read only one investment book in the next ten years — this should be the one. *Inflation-Proofing Your Investments* could easily be the most important investment book you read in your lifetime.

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What are Strategic Metals? And Why Should You Invest in Them?

By James E. Sinclair

PEOPLE IN MY PROFESSION, which is investments, are constantly searching for ways to make a profit. This needs no apologies. It is what we do, and it helps our clients to survive the ravages of inflation and the tax collector. At this time, one of the more promising areas of investment lies in a field that many have never thought of as an investment opportunity: strategic metals and critical materials.

For several years, the firm of which I am a general partner recommended the purchase of precious metals, especially gold, as an appreciating asset and as a hedge against inflation. Our clients who took our advice and bought gold in the 300s and 400s were quite happy when gold moved up into the 600s and 700s and briefly touched the stratospheric 800s. Since then, gold has descended to the high 400s and in our judgment is likely to go through a period of sideways price movement with a downward bias. Gold will glitter again, but in the short to medium term, there are more attractive investments.

Although much has been written about gold—its beauty, its durability, its industrial uses—in fact, it has little intrinsic value except for filling teeth and manufacturing jewelry. It holds its value over centuries for other reasons: its scarcity, its role in the world's monetary systems, and its function as a storehouse of value.

By contrast, strategic materials derive their value from their very real utility, even indispensability, in industrial applications and in national defense. Without the key strategics, we have no viable steel industry; we cannot build a modern jet engine, an oil refinery, a power-generating plant, and we cannot defend the United States militarily.

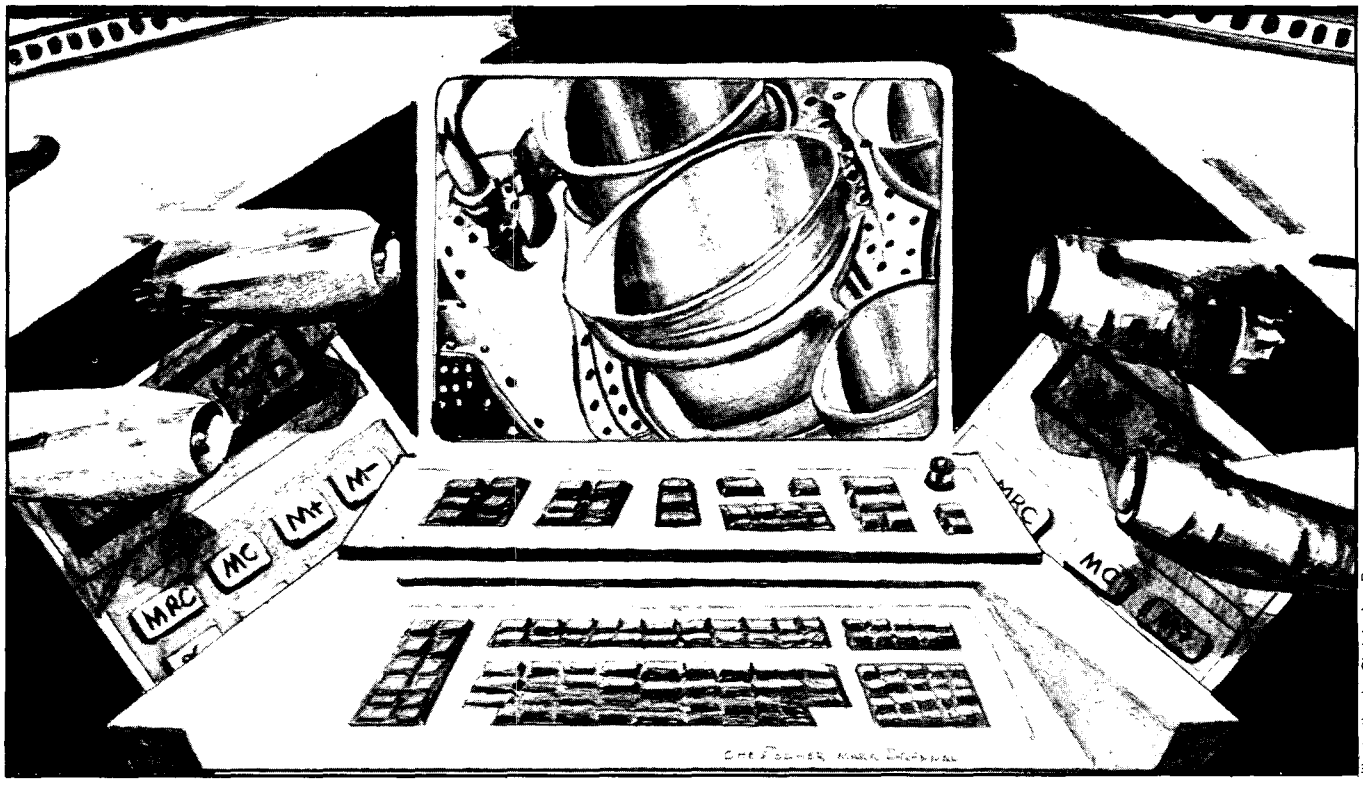


Illustration by Christopher Brennan

THE UN-GOLD METALS

What metal appreciated 2,000 percent in the last 24 months? No, not silver. It is a metal called *tantalum*, which is used as an alloy to harden steel for cutting tools.

What metal at the beginning of the Iraq-Iran war moved from $770 to $1,000 and held its gains? No, not gold, although gold gained well in that same period. I refer to *germanium*, a metal used in trace quantities in night sights for weapons and in the light-emitting diodes of your calculators and electronic wrist watches as well as in fiber-optical applications.

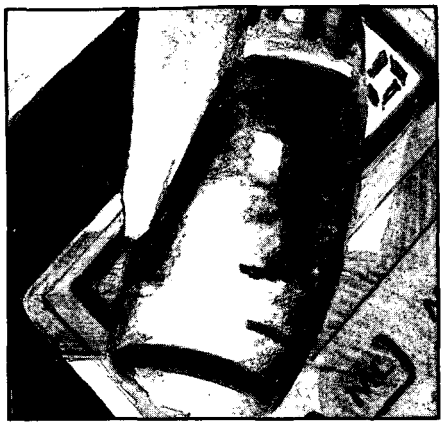
What metal's price went up in one week from $19.20 a pound to $23.30 and held its gains simply because 30 Tanzanians happened to cross Zaire on their way to attack Uganda? The answer is *cobalt*, which we must have to manufacture jet engines. Zaire, which used to be the Belgian Congo, and its backward neighbor Zambia, together produce about 65 percent of the cobalt used by the industrial Western nations, and politically, they are accident-prone.

For many of the strategics, there are no adequate substitutes except other strategics. The materials with which we are concerned have these points in common: the United States and its allies are heavily import-dependent on them, and they are produced mainly in distant areas that are subject to political turmoil, Soviet aggression, or outright embargoes. The question arises, what would we pay for these materials if supplies were reduced or cut off?

Nation's Business, the journal of the United States Chamber of Commerce, recently observed: "The notion that whatever we need will somehow always be there has apparently lulled us into a false sense of security and could someday be shattered by a crippling resource crisis that would be and will be more destructive than the oil embargo—a cutoff of foreign supplies of critical nonfuel materials."

The United States imports more than 50 percent of its requirements in 18 strategic materials that are critical to our national defense and to the functioning of our industries. In the case of 12 key minerals, imports account for more than 80 percent of consumption.

Of greatest concern to our defense authorities are four groups of materials. *Chromite* and its derivatives are essential for the manufacture of stainless and other high-performance steels used in engines, industrial machinery, and armor plate. *Manganese* is essential in all steelmaking, while the *platinum* group of metals is used in telecommunications, oil refineries, chemical industries, and the control of air pollution. *Cobalt* is vital for high-temperature uses in jet engines and in electronics.



The West's oil crisis of the 1970s may be only a prelude to supply squeezes in other raw materials in the 1980s.

WHY WORRY?

In 1980 the United States imported 91 percent of its chromite, 97 percent of its manganese, 93 percent of its cobalt, and 87 percent of its platinum group metals. For all of these metals, the country is heavily dependent on basic sources in southern Africa; for chromite and platinum, it draws significant supplemental supplies from its principal adversary, the Soviet Union. How long could we get that chromite and platinum from the Soviet Union if we came to a serious political confrontation with the Soviet government?

Zaire and Zambia, those political basket cases that produce most of the world's cobalt, are trying to form an OPEC-style cartel to support its price. In this they are getting direct support from the Soviet Union, which appears to be purchasing large quantities there for its aerospace industry and for its stockpiles. Those Soviet purchases from Zaire and Zambia provide those nations with much-needed foreign exchange and make them more independent of Western markets.

The lesson of OPEC, which managed effectively to corner the market in a highly strategic raw material and to commit economic extortion against the West, has not been lost on the underdeveloped but mineral-rich countries of southern Africa. We can expect to see a similar strategy attempted in other raw materials. The West's oil crisis of the 1970s may be only a prelude to supply squeezes in other raw materials right on through the 1980s.

While the United States is vulnerable to the threat of cutoffs or supply reductions, it does have a defense in its stockpiling program. Since 1946, the US government has created a strategic stockpile of 93 materials judged essential for national defense. The government's target has been to store enough of each material to meet the nation's essential defense needs for a three-year war. The program has not sought to provide for civilian industrial needs nor for those of US allies.

These stockpile goals are reasonable, but the fact is that many of the stockpiles of individual materials are far below their stated goals. In chromium metal, the stockpile goal is 10,000 tons; the inventory stands at 3,763 tons. In cobalt, the goal is 85.4 million pounds; on hand, we have 40.8 million. For titanium sponge, the goal is 131,503 tons; we have only 32,331 tons on hand. In palladium, one of the platinum group of metals so essential for refining, chemicals, and electronics, the goal is 2.5 million troy ounces; the stockpile stands at 1.3 million ounces.

To carry this point further, we must examine the quality of the materials held against that day we need them to make our weapons of war. The government admits that 60 percent of the cobalt in the stockpile is below the quality required for use in superalloys, while knowledgeable sources in private industry suggest that only 10 percent of our stockpiled cobalt could be used for its most critical purposes, in superalloys.

A Defense Department spokesman has said that the inferior quality will cause no problem because the materials could be upgraded in as little as 30 days. Rep. Jim Santini of Nevada, however, who has done a great deal of pioneering work in the field of strategic materials, responds: "That kind of thinking borders on indefensible nonsense."

What we must recognize is that we are

in fact involved in a resource war that is not going to end this year or next. Jim Santini has called this war an undeclared conflict more serious than the Vietnam war ever was. William Mott, a retired rear admiral of the US Navy and another Washington-based expert on the minerals problem, says that from Moscow's viewpoint a resource war is a low-cost, low-casualty offensive, usually just below the threshold of effective response by the Western allies.

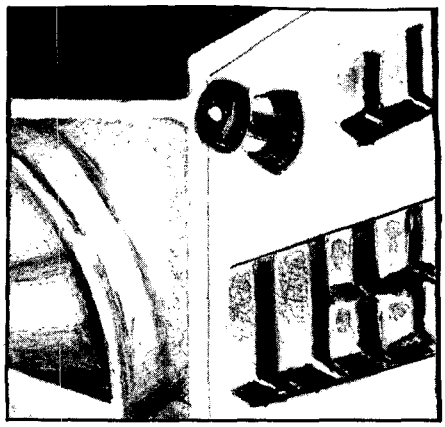
TIME FOR BUYING IN

Nobody needs to be a genius to recognize that a major geopolitical shift is taking place. From the Middle East to southern Africa, the Soviets are flexing their muscles. They now control Afghanistan, wield considerable influence in Libya and Iraq, and are seeking a foothold in Iran. They intend to control the Persian Gulf by 1983 by intimidation and by the vacuuming process of bringing other countries into their vortex. On the African continent, they are not-so-subtly extending their reach through their Cuban surrogates in Ethiopia, Mozambique, and Angola and through Marxist-led guerrillas who are probing South West Africa (Namibia). A self-declared Marxist is master of Zimbabwe.

It begins to be clear why we think of strategic materials in two contexts: first, as essential elements on which the military security and economic health of the United States depend, and second, as vehicles for investment with a high probability of price appreciation over a reasonable period of time. No sane person wishes for the kind of international crisis that would create a defense-related shortage of these materials. But if such a crisis occurs, the country will be stronger for being able to draw upon reserve supplies that its forward-looking investors have accumulated to supplement the federal stockpiles.

Commercial metals generally follow an inventory accumulation cycle. This means that when economic recessions choke commercial demand for the materials, prices soften, supplies improve, and producers seek outlets. In relation to many of the strategics, we are in just such an accumulation cycle in 1981. I believe that the investment opportunity in certain of these metals exceeds the opportunity in gold, though it is still great in precious metals.

Some of the great fortunes in our industry have been made not on objective commodities—those most commonly traded in the public markets—but in more esoteric commodities. Gold's price rise from 35 to 850 was magnificent, but even higher gains have been registered in other materials. Somewhere among the 93 substances officially defined as strategic, and in some related products, lies a potential that may be just as exciting.



Gold will glitter again, but in the short to medium term, there are more attractive investments in other metals.

The shares in producing companies may be leading indicators of this market. Why has Oregon Metallurgical, a producer of titanium, moved from $5 to over $50? And why has US Antimony moved from $2 to more than $10?

METALS MECHANICS

The strategy that I propose is the outright purchase of certain key strategic materials and their safe storage with the full expectation that it will be in the investors' interest and in the national interest to resell them at the prevailing market prices in three years or more. The process is simple, and the investor does not need to give up a percentage of his profits to any adviser, broker, or expert.

The major commercial markets for most of the strategics are dealer markets in London, and the London Metal Exchange (LME) has developed a tested set of procedures for having materials assayed, inventoried, and stored in ways that give protection against fraud. I recommend using a broker who observes the LME-approved procedures and safeguards established for base metals and applied to strategics.

The investor should demand and get a document confirming his purchase and showing the material purchased, the quantity bought, the price paid, and the commission paid to the broker. A warehouse receipt is essential. Under LME rules, the warehouse receipt states the amount and type of material held in the warehouse; this receipt can be issued in bearer form or as a certificate listing the name of the owner.

Further, the investor should get an assay certificate and a sampling certificate. The sampler goes to the warehouse where the materials are stored and makes a sight inspection. He weighs the material and takes a sample to the assayer, who tests for chemical properties and impurities. The cost of all this documentation is usually less than $200 for each item.

Under British law, observed in most depository areas, the responsibility of the warehouse is limited to due care; in the absence of negligence on the part of the warehouse, it is not responsible for theft. Therefore the investor should get insurance protection from Lloyds of London or some other responsible insurer. The investor should also require an annual audit by a recognized auditing firm, possibly one recommended by the dealer. An auditor will provide a letter stating that the receipts handed over to the owner of the materials are bona fide documents. Most metal brokers will negotiate these safeguards.

Where is the risk of fraud in all of this? It lies in the delivery of materials below the quality represented and in the duplication of warehouse receipts. The procedures that I have suggested will offer protection against these risks.

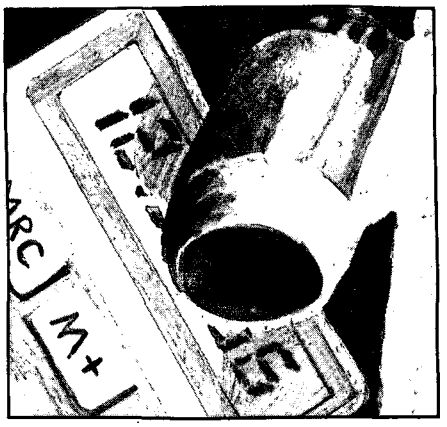
A MODEL METALS MIX

Clearly, no one will want to buy into every one of the 93 strategic materials, any more than a private investor would be likely to buy shares in every one of the Standard and Poor 500 stocks, and some nonstockpiled materials may also be of interest. We do *not* recommend buying these materials for short-term trading

profits. Rather, the technique that I see as most likely to yield a substantial profit is to take positions on a fully paid basis for three to five years, using no more than 10 percent to 15 percent of the investor's portfolio funds.

With these caveats and after a study of prospective uses and demand, supplies available now and expected in the future, our firm has developed a model portfolio costing in the range of $118,500, plus brokerage and documentation. This portfolio includes:

- *Five metric tons of antimony* at $17,650 at recent prices. The metal should be in ingots of 99.6 percent minimum purity, packed in wooden cases. Antimony is a limited-warfare metal. Alloyed with steel it makes brittle shrapnel; with lead it makes soft bullets. It is used in incendiary materials and also in flameproofing and camouflage paints. It is also heavily used in storage batteries for automobiles and military vehicles and to replace nickel-cadmium batteries because cadmium has been found to be extremely carcinogenic.
- *One metric ton of chromium*, trading recently at $9,350, delivered in lumps of 99 percent minimum purity packed in steel drums. Chromium is an essential ingredient of stainless and other high-performance steels. Most of the Western world's supply comes from South Africa and Zimbabwe.
- *250 kilos of cobalt* delivered in broken cathodes of 99.6 percent minimum purity, packed in steel drums. At recent prices, this will be $13,000.
- *20 kilos of germanium* at 99.9 percent minimum purity, costing approximately $21,000. This is the metal that recently moved from $770 to $1,000 a kilo. Above-ground supply in the world is small, around 40 metric tons, and production so limited that it is not beyond imagination that the market could be cornered, and just such an attempt may be in progress.
- *10 metric tons of electro-manganese*, delivered in flakes of 99.95 percent minimum purity packed in steel drums and costing about $16,800. Manganese is an essential element in steelmaking, and the United States is 97 percent dependent on imports, mainly from southern Africa. The Soviet Union, once considered to be self-sufficient in manganese, is now buying in world markets.
- *500 kilos of titanium sponge*, the aerospace metal, of 99.6 percent minimum purity and packed in drums, approximately $10,800.
- *20 troy ounces of rhodium*, one of the platinum metals, 99.9 percent pure, and worth, at recent prices, approximately $13,500.
- *50 kilos of indium*, a metal used in electronics and solar cell technology, in ingot form of 99.99 percent minimum purity, packed in drums. At recent prices, $16,250.



Encouraging private investment in strategic materials would relieve the government of fiscal and inflationary pressures.

The prices and market movements of these materials can be followed by reading *American Metal Market*, *Metals Week*, and the *Metal Bulletin*, or on the Reuters money wire, by keying the code LMEC. The financial and general press is also awakening to the significance of this field of investment and is devoting more coverage to it.

ENCOURAGING INVESTMENT

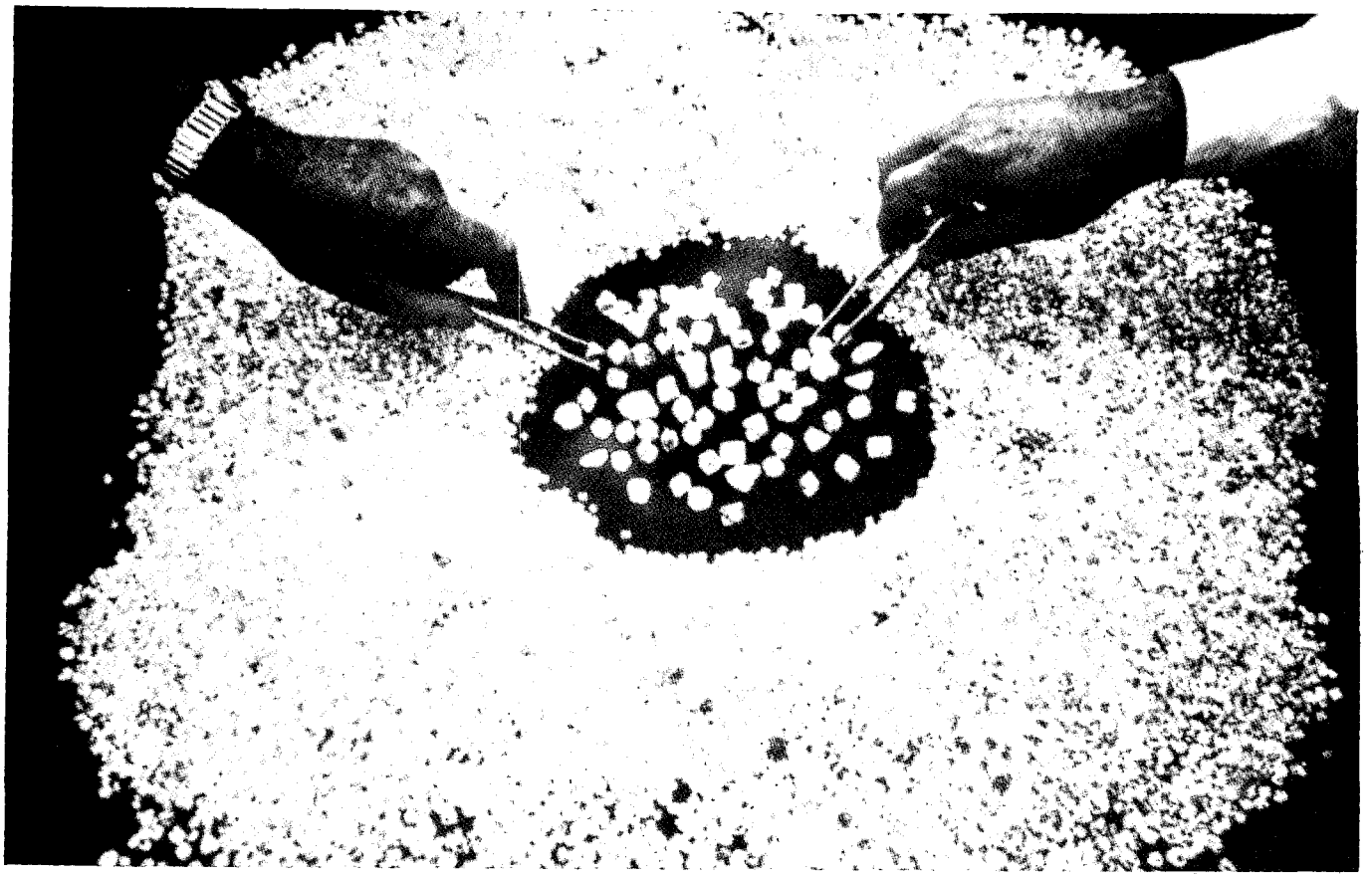
The new Reagan administration, I believe, will take steps to improve the administration of the national stockpile and to speed up procurement of some of the materials in which the stockpile is dangerously deficient. The administration understands the need to reduce the nation's vulnerability to OPEC-type cartels and the politically inspired disruption of sources. At the same time, the administration faces serious financial constraints on its ability to invest large sums of public money in stockpiling.

It seems to me that the time has come for the development of some innovative solutions to this pervasive problem, partly because our national security is at risk but also because our principal allies, lacking stockpiles of their own, are even more vulnerable to supply interruption than is the United States. We should also consider, of course, the dangerous economic impact on our economy of a shortage of such materials as manganese, chromium, cobalt, and the platinum metals. One solution is to involve the private sector in meeting the problem. To that end, I believe the government should offer incentives and safeguards to private investors and industrial consumers willing to add to the nation's available resources in strategic materials.

The government should apply favorable tax treatment through fast writeoffs of the capital costs of building private stockpiles, while such costs as insurance and documentation should be treated as ordinary costs of doing business. Industrial users and potential stockpilers of strategic materials should be entitled to investment tax credits on their investments, just as industries in nonstrategic areas are encouraged through tax preferences to invest in payroll-generating productive enterprises. I also believe it is reasonable to write provisions for favorable capitals gains treatment for profits in stockpiled materials. Bonds could be floated for the purchase of strategics, secured by the warehoused materials, and it would make sense to make the coupons of these bonds tax-exempt. Clearly, encouraging private investment in strategic materials would relieve the government of some of the fiscal and inflationary pressures resulting from a solution relying solely on government financing and initiative.

The year 1981 is a period of recession in many parts of the world, and prices of many of the materials we need are at cyclically low levels, a situation made to order for the start of programs such as I have suggested. A year from now, or farther in the future, conditions may be far less favorable. ◧

James Sinclair is the president of Sinclair Securities, Inc., and publishes a weekly economic newsletter. This article is adapted from Mr. Sinclair's presentation at the November 1980 meeting of the National Committee for Monetary Reform.



Diamonds in The Prospects

BY ALAN EINERSEN

THE MEDIA SEEM FINALLY to have discovered diamonds and precious stones, although their message is sometimes confused. For instance, recently there were two guests on the NBC *Today Show*—one, Sheila Pine, telling viewers to sell diamonds and buy colored stones; another, David Rubin, in response to tumbling gold prices asserting that the diamond market is basically sound and that diamond prices would "recover" as soon as the new Reagan economic policy was defined.

In 1976 the wholesale price of prime investment diamonds—one-carat, D-flawless—averaged $6,700. By 1980 that priced had leaped to $60,000 but by the end of February 1981 had fallen to $44,000. But will the trend continue, or will the glittering diamond market of the last five years return in all its glory? Any attempt to come up with an answer must take into account several factors—whether Reagan's economic policies will affect the diamond picture, whether De Beers will step in to steady the market, and what can be expected from recently introduced diamond investment vehicles.

THE REAGAN FACTOR

"Supply-side economics" has apparently become the battle cry of the '80s. Reagan has promised an economic revival via tax cuts, tax incentives for industry, deregulation, and control of the money supply. So far, it's breathed new life into the stock market. For diamond investors, however, the telling question is whether these measures can limit inflation, the cornerstone of the hard-asset investment market. For several key reasons, it's unlikely.

First, Reagan must get his proposals through Congress. Perhaps he'll win the budget battle, but the prospects for taming taxation are dim. Even with all the tax bills pending in Congress—another reduction in capital gains taxes, accelerated depreciation write-off, reduction in income tax rates (Kemp-Roth), and income tax reductions coupled with a value-added tax—it's not clear that a majority of either the House or the Senate will agree to get down to business and actually slash away at taxes. And, supposing they do, will tax relief come in a form that could boost investment?

Second, even if Reagan manages to win from Congress anything close to his proposed package—*and* it bolsters the economy—can it really control inflation? West Germany and Japan have sound economies but are still plagued with in-

flation. And all the signs are that OPEC partners are resolved to maintain their regular price increases and to limit crude supplies.

"Inflation," as British economist Anthony Harris has noted, "is not a problem but a cure . . ., the means by which an economy squares excessive claims with limited resources." This is what is happening in the United States today, squaring the excessive claims of OPEC, trade unions, and government beneficiaries. These will not disappear.

What we can expect, then, is for investors to continue to look for real wealth—real value that cannot be produced by a paper economy. For a whole decade, collectibles and gems have outpaced equities (paper), and the market is well established. Institutional money has begun flowing into hard assets. Individual investors, between affairs with the money market, continue to invest. Investment vehicles are becoming more sophisticated as limited partnerships and trusts are accepted. Communications within the market have expanded with computerized listings. Finally, brokerage

the '80s: and Pitfalls

firms, looking for new profit possibilities to offset equity declines, have been moving into the hard-assets market. And all of this spells strength in diamond investments.

DE BEERS DOMINANCE

Any assessment of the outlook for diamonds must also take account of what is probably the second-most important cartel in the Western world after OPEC—the diamond producers' organization that is synonomous with *De Beers* because of the indisputably dominant position within the cartel of De Beers Consolidated Mines, Ltd. De Beers is itself the world's largest diamond producer *and* buyer, and it has never been hesitant to call the shots in the diamond market.

De Beers controls the market in several ways. It operates its own mines in South Africa and Namibia and is expected to be in production in Botswana by 1982. It also works under contract in Angola. Through the Diamond Trading Company (DITRA), it buys rough on the open market in West Africa and elsewhere. On the marketing side, it controls about 85 percent of the world's diamond supply through its Central Selling Office (CSO) in London. Stones are sold to its customers—manufacturers and wholesalers—10 times a year at CSO "sights." In addition to determining what quantity will be offered at these sights, De Beers exercises control through the parcels offered. Although sightholders may accept or reject an offered parcel, frequent rejections may lead De Beers to withdraw its invitation to participate. Buyers suspected of stockpiling may have their invitations withdrawn also.

For the CSO itself, of course, stockpiling is *the* means by which it achieves its goal—maintaining "orderly" prices. Thus it holds diamonds during slumps and releases them for sale during boom times.

There is every reason to believe that De Beers will and can continue to use its position to keep diamond prices from diving. It's been controlling the market since the company was established in 1888 (by Cecil Rhodes, a British businessman after whom Rhodesia was named and who used part of his De Beers fortune to endow the famed Rhodes Scholarships). And a recent comment by De Beers Director N. F. Oppenheimer shows that they intend to continue in that vein: "It would seem that large stocks of these diamonds are building up in the various cutting centers. At times like this it might be thought that De Beers would be getting worried, but this is far from the case. In fact, as was reported in the annual report, De Beers is, with some urgency, expanding production of diamonds into Botswana and in Namaqualand. It can do this in the sure knowledge that the relationship between it and the trade is sufficient to carry them through if difficult times still prevail when this production goes to the CSO." And indeed, in mid-March *Business Week* reported that De Beers had cut back diamond allocations to cutting houses—by 60 percent in the case of the US cutters.

DIAMONDS GO PUBLIC

Recent developments in diamond investment vehicles promise a broadening of the market. In the United States, early 1981 saw the approval of three diamond investment funds by the Securities and Exchange Commission.

The first is the Thomson Diamond Trust, set up by the national brokerage firm Thomson McKinnon Securities. The US Trust Company of New York and the Wilmington Trust Company of Delaware serve as trustees, and a prominent New York broker was engaged to negotiate the purchase and liquidation of the stones, supervised by a trio of industry experts. The trust acquired high-quality diamonds, D to H in color and Flawless to VS2 in clarity. Initially, some 7,000 investment units were sold at slightly less than $1,000 each, plus sales costs.

A Florida diamond dealer has also won approval for Diamond Investments, Ltd. This calls for a limited-partnership, $10-million diamond fund. Both this and the Thomson fund plan for periodic liquidation over a 10-year period.

A third entry, Michigan-based National Diamond Fund, is more like a mutual fund. It plans to sell a million shares at $10 each. The fund is to be managed by a chartered life insurance underwriter and a member of the American Society of Pension Actuaries. The company's prospectus calls for the purchase of diamonds, both rough and polished, ranging from 1 to 3.5 carats, as well as other stones. The fund projects that it will have to sell 50,000 shares in 180 days to raise capital to buy the stones. Semiannually, the fund would have a 30-day stock redemption period at net asset value.

In Europe, one of England's largest merchant banks, Charterhouse Japhet, Ltd., recently announced the Anglo Diamond Investment Fund, which plans to invest $14 million in a top-quality diamond portfolio, with shares offered at $10,000 each. The fund will hold the stones for five years, trading only when appreciation is high. At the end of this period, the diamonds will be sold and the proceeds distributed to shareholders.

Thus, for the first time in years, the small and middle-range investor has access to diamond dealing. If successful, the concept could change the nature of the diamond market. In addition, these moves could spark institutional investment in diamonds. US pension funds amount to some $650 billion, and one dealer recently pointed out that if a mere five percent of this were to enter the diamond market, it would result in a bull move "unparalleled in its magnitude."

INVESTOR BEWARE

If you are intent upon investing in diamonds on your own, there are, as in any investment field, pitfalls to watch out for. "Diamonds are not for everyone," warns Richard J. Harty, president of a Los Angeles diamond brokerage firm. He estimates that in 1979 investors lost over $100 million in diamond scams.

People are attracted to diamonds for capital gain, the excellent inflation hedge offered by hard assets. For example: some high-grade stones have appreciated as much as 40 percent a year, well above the inflation rate. The investment diamond market as a whole has not experienced a major price drop in the last 40 years. Diamonds also represent the most concentrated form of portable wealth; there is no ongoing management or upkeep; and there is easy worldwide liquidation—making diamonds one of the most popular hard-asset investments.

With diamond investment funds, the small- and middle-range investor has access to diamond dealing for the first time in years.

Yet "Many gemstone buyers are not well enough versed in purchasing diamonds to avoid being taken," says Harty, who was president of the now-defunct American Association of Diamond Merchants. It is this lack of information that accounts for the success of diamond swindles. As insurance for the investor, he recommends knowing the major types of scams used by unscrupulous diamond salesmen.

The main technique used to defraud investors is the "guaranteed buyback," in which the firm selling the stone promises to purchase it at any time the investor wants to sell it. If a broker says he will buy back the gem with no loss to you, demand to see his Securities and Exchange Commission license. Any firm offering a guaranteed buyback is required to have a diamond sale prospectus, as in a stock sale. Buyback firms who cannot produce a license and a prospectus should be avoided.

Beware of brokers who promise to liquidate stones in less than two days. This ploy is often used in conjunction with the guaranteed buyback. With rare exceptions, diamond sales take four to six weeks.

The most common complaint attorneys general receive from investors is over pricing. Brokers tell buyers they are getting a stone at wholesale, but the actual price is retail. The best protection against this scam is to know current diamond prices before buying any stone. Rates can be found in such publications as the *Gold & Diamond Exchange* price matrix.

A popular way to attract buyers is to quote the huge price increases of investment-grade stones but to offer melee—small, jewelry-grade diamonds. "At least $30 million was invested in melee in 1979," says Harty. "Those little things are for beauty and adornment, not investment." Diamond chips definitely do not appreciate at the same rate as larger, investment-quality stones. Harty recommends not investing in any diamond less than one-half carat and certainly no less than one-third.

Another type of diamond swindle is the "loss leader," or "bait and switch." A broker will advertise diamonds at a certain price, usually wholesale or below, but when the potential buyer tries to purchase the advertised stones, the dealer does not have them. The broker then tries to push the investor into buying more expensive stones.

A modification of the "bait and switch" technique is to attract potential investors with wholesale diamond prices but convince them to buy colored stones such as rubies, emeralds, or sapphires. Colored stones can be a good investment, but you need to be very careful when buying them. Partly because the grading standards for gems other than diamonds are not well developed or uniform, it is very easy for an unsuspecting and untrained investor to get taken when buying colored gems.

A popular scam is to quote the huge price increases of investment-grade stones but to offer melee—small, jewelry-grade diamonds.

Time-payment scams are also becoming popular because of the increasing prices for investment-grade diamonds. Investors who cannot afford to buy a stone outright can buy on a lay-away plan, paying in installments of $50 or $100 a month. Because of the high cost of quality diamonds, however, most brokers cannot afford to hold stones for investors paying as little as $50 a month. What usually happens in time-payment frauds is that the broker gets your money and keeps the stone. If you do not have the money to pay for a stone all at once, you should consider other investment opportunities. Never purchase a diamond, regardless of the price, if you do not get to hold the stone.

An old, yet still effective, scam is selling industrial-grade or simulant diamonds for investment-quality stones. This fraud is usually employed by firms selling diamonds by mail. An investor will buy a stone thinking he is getting a high-quality diamond, but upon certification the gem turns out to be a fake or of very poor quality. Brokers using this scam often seal the stone in a plastic container, with the gem placed against a black background to enhance its brilliance. The sealed container will carry a warning telling the buyer not to break the seal or the stone will depreciate. Sealing a stone does not affect its value. A $5,000 diamond will be worth $5,000 if it is wrapped in paper or plastic. While there is nothing wrong with sealing a diamond, the container should protect the stone and the buyer, not the unscrupulous dealings of a broker. Diamond investing by mail can be risky and should only be done with a reputable firm.

One of the recent systems used to defraud investors is a diamond pyramid

scheme. Brokers use this scam to convince a number of investors to pitch in toward buying a large parcel of rough stones. The dealers guarantee very large and quick returns when the stones are cut and sold. The investors in a pyramid scheme never see the diamonds and usually never get a profit or their original investment back. Again: investors should be leery of any diamond purchase where they do not get to see or keep the stones.

KEEPING YOUR SHIRT

The best way to avoid scams is to learn about diamonds and the diamond market *before* you make a diamond investment. Reputable dealers will supply investors with general information about diamonds. The literature should point out the various pros and cons of hard-asset investing. Broker Richard Harty maintains that information stating only the good aspects of diamond investing should be questioned.

Before you even approach a dealer, though, you should know your investment portfolio. How long can your money be tied up? What do you expect from your investment? And will you need quick access to your money?

If you determine that a diamond investment makes sense for you, the next step—one of the most important steps in diamond investing—is to shop around for a reputable dealer. "Avoid brokers who will only discuss the romance of diamonds and will not deal with the facts," states Harty. Be wary of sellers who are only interested in closing the deal and try to force a sale by assuring you that "diamond prices are going to double, so buy now." The number-one rule of diamond investing is: Do not buy from a broker you do not trust.

Check and compare broker prices. Watch out for low quotes over the phone but high prices in the office. A legitimate broker will tell you his sales commission—the industry average is 10-20 percent. Find out in advance how much the stone is marked up over wholesale. A diamond marked up more than 45 percent, including sales commission, should not be bought for an investment, advises Harty.

Reputable dealers will let investors examine and return a stone for a full refund within a given period if dissatisfied with the purchase. If a broker does not offer a satisfaction guarantee, look for a different firm.

Ask the broker for a list of references, and check them thoroughly. A firm's reputation can be checked by calling its bank, the Better Business Bureau, or the Chamber of Commerce. If the firm leases its offices, contact the landlord to see if the rent is paid on time and how long the firm has been in the same location. Checking references and leases can help you avoid boiler room operations.

There is nothing wrong with sealing a diamond, but the container should protect the stone and the buyer, not an unscrupulous broker.

After choosing a dealer you can trust, have him help you decide what size and type of stone is right for your portfolio. Large high-quality diamonds are difficult to sell quickly, while one-half carat stones are easier to liquidate. Regardless of size, a diamond should be held at least three to five years. In spite of advertising claims to the contrary, most investors pay retail prices for stones and get wholesale prices when they sell. This means a long waiting period before the investment shows a substantial profit. "Diamonds are not a get-rich-quick scheme," says Harty. "They are a long-term investment."

Know exactly what you are getting before paying for a diamond. Your broker should give you a detailed description of the gem's specifications. Ask about the stone's proportions as well as its cut, clarity, and color. Be leery of any broker who says he will get you a diamond with "approximately these characteristics."

The easiest way to get burned when investing in a diamond is by not getting an independent laboratory certification. In-house certificates, of course, should be avoided. The major US independent labs are Gemological Institute of America (this one has the widest reputation), American Gemological Laboratory, United States Gemological Services, Inc., and European Gemological Laboratories. Some labs seal the stone in a plastic container. If the diamond is sealed, be sure the lab sealed it, not the broker.

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Diamonds, like any investment, do carry an element of risk. To improve your odds of making a profit and not getting taken, use caution. Avoid problems by spotting a diamond scam before it has your money. ◧

Alan Einerson is a financial columnist for Utah Holiday *and* Medical Tribune, *has written extensively for various business publications, and is the former editor of* Gold and Diamond Exchange.

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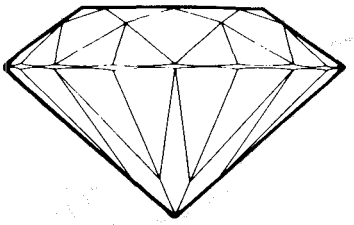

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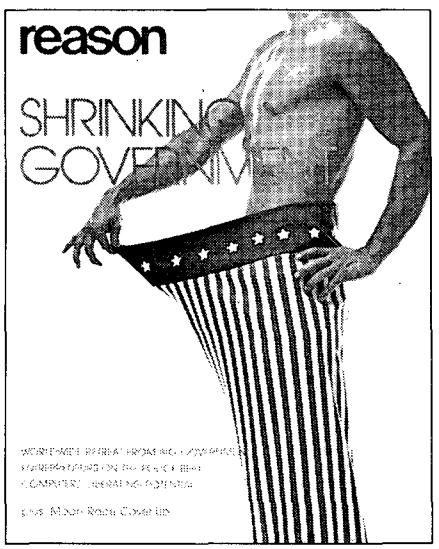

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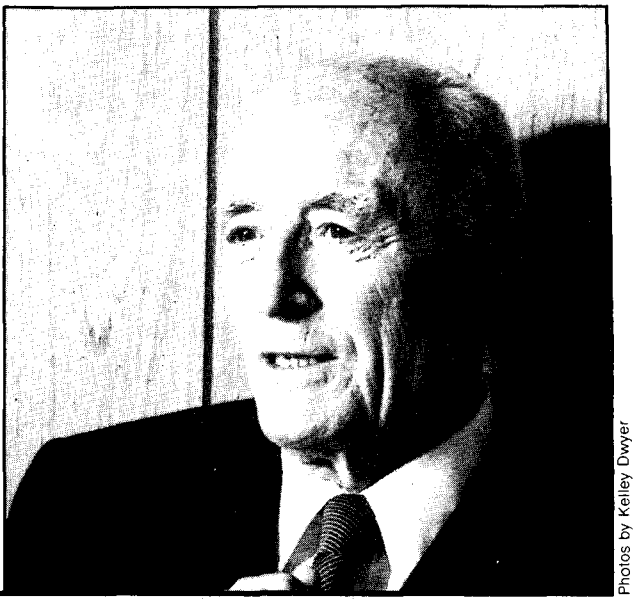
In an exclusive interview before his death, the father of the hard-money movement talks about how he came to gold, his battle with the SEC, and his hopes for the future.



Photos by Kelley Dwyer

REASON INTERVIEW

COL. E.C. HARWOOD

When he walked into our offices that day last fall, we hadn't known quite what to expect. Yes, it was to be Col. Edward C. Harwood, the near-legendary Colonel Harwood, the original "gold bug," the man who, on the basis of understanding inflation as a monetary phenomenon, predicted the Depression; who virtually alone among forecasters understood that a boom, not a recession, would follow World War II; who began advocating gold investments in the 1950s; *and whose investment-management operations had nearly been put out of business in 1975 by a Securities and Exchange Commission witchhunt. . . that Colonel Harwood. But we also knew that this was an 80-year-old man, and, frankly, we didn't know what to expect. Least of all did we expect the tall, broad-shouldered, steely-eyed man who marched into the office that sunny day and sat down to be interviewed. This man was no senile has-been!*

For over an hour we talked with Colonel Harwood, reviewing his lifelong devotion to ideas, his West Point and Rensselaer (chemical engineering) education, his self-taught mastery of economics and devotion to scientific method, his founding of the American Institute for Economic Research in 1933 at the suggestion of MIT's Dr. Vannevar Bush and the Institute's work over the years, and his founding also of its offshoot, American Institute Counselors, Inc. (later—after IRS and SEC battles—to be supplanted by a new entity, American Investment Services, Inc.). Through it all we marveled at the man's keen intellect, his appreciation of the forces shaping politics and culture, and above all his sense of life.

When the time came to shut off the recorder, we were genuinely saddened to see him depart, for we knew we had been in the presence of a kindred spirit, a man whose life had been spent in pursuit of purposes we shared. Evidently he thought so too, for several days later a package arrived with a set of his books for our library.

We are especially honored to present this interview. Colonel Harwood died on December 16.

I don't think the SEC had any plan to go to court; I think they just assumed that they would crush us right off the bat.

REASON: How did you first become interested in hard money, and how long ago was that?

HARWOOD: Oh, it was a very long time ago. I became interested in economics in 1922 and the hard-money aspect in the 1920s as I became quite concerned about the direction in which we were going. I thought we were overexpanding our credit, and it appeared almost certain that the change to double counting of gold in the reserves of the banks of the world after the Geneva Conference of 1922 could lead to very serious adverse results.

REASON: What was the double counting of gold?

HARWOOD: At the Geneva Conference—I better start just before that. After World War One there had been a tremendous rise in commodity prices resulting from the credit expansion during the war not being counter-balanced immediately. And afterward, when the to-be-expected recession became a depression in '21, a number of economists around the world were arguing that there was not enough gold in the world, and something should be done to make it be more easily expandable. So there was a conference on the subject in Geneva in 1922, at which general agreement developed that gold in the vaults of one bank, like the Bank of England, would be counted for the Bank of England as gold reserves, and if the Bank of India, say, had deposits or credits at the Bank of England, they would also call those gold. In other words, some of the gold in the Bank of England was counted twice—once for England's central bank, and once for India's central bank. That made possible much greater credit expansion, which got under way during the 1920s and carried on, as you know, to the great speculative boom reflected in our Florida boom of the early 1920s and of course in our stock market later. By 1928 it was apparent that the expansion limits to credit, even allowing for the double counting of gold, was nearing an end, if the gold standard was to be preserved. In 1928-29 I had focused my attention on that and written a number of articles, which were published in *Barron's* and the old *New York Times Analyst* and so on, pointing out that we were approaching such a limit and that the result unfortunately would be a very severe credit collapse. That was on the assumption that we would try to preserve the gold standard. And that is what happened. I was fortunate in the timing of some of the articles—one of them came out in August of '29. I made the statement that we were headed for a very severe crash. Of course you know what happened.

REASON: Was your background in economics academically? What were you doing and what was your business at that time?

HARWOOD: I was an Army officer. I had graduated from West Point in 1920. And it happened that my class and the two preceding classes were put in the regular army after World War I—World War I officers. And at that time the 12,000 officers in the Army had to wait for someone to die at the top until anybody got promoted. My class and the two preceding had to wait 16 years. So after about a year or two, with no prospects of any more serious or rewarding duties, as I put it, you either chased women or drank or found something to do. I was fortunate in that I found something to do.

I had been sent up to Rensselaer Polytechnic Institute for further engineering studies and started reading in the library on economic matters. By 1923 I had become sufficiently well informed so that leading economic journals would accept articles that I wrote, which was a great encouragement to me, as you can imagine—a lieutenant with a family coming, trying to live on $125 a month. So, with that encouragement I continued my studies and have continued them ever since. Of course, when I originally was writing, nothing appeared about my Army connections, just my name. And it was quite a long time before anyone knew that E. C. Harwood who was writing those articles on money and so on was an Army officer!

REASON: How long did you stay in the Army?

HARWOOD: I retired in 1937. Then it became apparent we would get into World War Two, so I went back in 1940 and served through 1946 and retired a second time. In the meantime, I had started this organization in 1933.

REASON: The American Institute for Economic Research. What motivated you to start it?

HARWOOD: Well, I discovered that I had learned enough so that my judgment as to what was happening and what was going to happen was sound, sound enough to warrant trying to continue. At that time there was a Senator Flanders and Thompson and Simons of Simons Saw & Steel and some other businessmen who had been consulting with me. I happened to be on duty at MIT, and I was continuing writing all the time. They wanted a cure for the depression and were quite confident that a good economist could produce a cure in six months, and they urged me. They had pledges for several million dollars and wanted me to start a Committee for Economic Development, which I believe is still functioning.

REASON: Yes.

The gold standard was not something that some economists dreamed up—it was an evolutionary process.

HARWOOD: And I turned it down. I told them I had learned enough about the field of economics to realize that it wouldn't take six months but I guessed at least 25 years. You can see how great an optimist I was! But I thought there should be an organization working on these problems, so with a couple hundred dollars, I started the Institute. It's grown up now. It has rather substantial funds, well over $50 million in the background—not for current use yet, but it will be.

REASON: As an endowment essentially?

HARWOOD: It's reserve life income contributions, and it's making out very well.

REASON: What's the total number of people who subscribe to AIER's bulletin and who are on the mailing list?

HARWOOD: Well, the mailing list is well over a million people. That's everybody who has bought an Institute publication in recent years, going back about 10-12 years. Annual sustaining members are nearly 8,000. And it owns an investment advisory service which had to be split off from the Institute and has about 12,000 subscribers. You might think of the investment advisory service as being like the farm that an agricultural college operates.

Knowing how the SEC proceeds, I figured the first thing those fools would try to do would be to liquidate everything.

REASON: A way of proving it out in the real world. Was yours the first organization to advocate gold investment in this country?

HARWOOD: Yes, I think so. I know that there's one investment advisor who claims to have been the first, but we started in 1958 recommending South African gold stocks, and I know he claims that he started in 1960 and I think he probably did.

REASON: One of the things I do want to cover is your battle with the SEC. A few years ago the SEC launched a major attack against the investment programs that you were offering. [At the time, about $150 million in gold, gold stocks, and other gold-related assets was being held in Swiss banks under American Institute Counselors investment programs. About 4,000 US investors were involved.] What did the SEC claim was wrong with what you were doing?

HARWOOD: Well, the claim was that we were violating—let's see, how did they word it?—practically every provision of the securities laws. That was the burden of their allegation. And they viewed me as the principal culprit. They went to a judge on I think it was Thanksgiving evening, 1975, and convinced him that he should issue an injunction immediately. I didn't even know there was going to be an action; I happened at the time to be in Switzerland. I didn't know until nearly a month later—I had no official notice till nearly a month later—that it was even going on. And the judge held the first several sessions of court without me being represented and was asking the SEC how he could subpoena my Army retirement pay. He practically decided the case and announced the decision before I even had an official notice. He's an interesting person; he's changed his mind considerably since...

REASON: Was it Judge Gessell all along?

HARWOOD: Yes.

REASON: He was quoted in the *Wall Street Journal* in '78 as saying to the SEC man, "My problem is that your notion of safety is diametrically opposed to the notion of the investors. All of these investors believe that they want to get away from anything to do with United States money or United States bonds." So it sounds like over the period of three years you turned him around pretty much.

HARWOOD: He got educated.

REASON: You didn't contest the fact that your program was not registered with the SEC, is that correct?

HARWOOD: The judge never did or said anything about that. On August 1st of 1976 or '77 he dismissed or terminated all the charges against me with prejudice to the SEC. So they never got to first base with anything. And I don't think they ever hoped to. I don't think they had any plan to go to court in the sense of trying the alleged violations. What they hoped to do, of course, when the thing broke in the newspapers on the 26th of November of '75 on the front page of the *Journal* and *New York Times* and everything—I think they just assumed that they would crush the organizations, both organizations, right off the bat. Because that's what would ordinarily happen. People would lose confidence; there'd be any number of class action suits. But three months after the SEC broke their charges to the public, the London *Economist* sent an inquiry to the SEC and asked them how many complaints they had had from investors. And the SEC replied, none.

REASON: So they initiated this completely on their own because someone there apparently didn't like the look of it. And apparently your subscribers and investors stood behind the program and your organization.

HARWOOD: Very much so. And there are some interesting little sidelights on it. My wife and I had gone to Bermuda in October and from there to Switzerland. I had had a little indication of the threat of it in—when was it?—early November. And knowing how the SEC proceeds, I figured the first thing those damned fools would try to do would be to liquidate everything, and I'd better try to block what they might propose to do. In fact their first proposal to the judge was to set up a schedule of how everything would be liquidated in the summer of '76. And of course the summer of '76 was when gold had fallen to a low of 103, and naturally all the gold stocks were down and so on. Instead of having the attitude of a trustee—when there's that sort of a panic condition to wait until it's over—the SEC had no such idea at all. As I said, though, I didn't know then that they were going to propose it, but I suspected they would. They don't know the first thing about investments. It's just ridiculous.

Well, so a key part of the Swiss organization was the Mondial Corporation [one of the Swiss entities that operated AIC's investment programs]. And the SEC had endeavored through attorneys who were subservient to them, supposedly representing the Institute, to get control of that organization in Switzerland. But it happened that I had given control to the Progress Foundation in Switzerland, which is an organization I'd developed to do in Europe more or less what AIER is doing in the US, and I knew that this Mondial was the key. When I gave it to the Progress Foundation I retained a life interest in it, waiving the income, but I had foreign trustees, and I just thought that sometime in the future they might diverge from the direction we're trying to go here, and if they do I want to yank this away from them and get another bunch to run it. So, I went to the judge of the little court there in Lugano and put in

a legal complaint or whatever to have that stock put in the custody of the court. So he took custody of it. This is just a small municipal judge in Lugano.

But I got that court to act, as it happened, on the same date the SEC was going to court, but eight hours ahead. I didn't know they were going to court—it was just by chance. And when the SEC saw the date of my action they just flew through the roof and went to the judge and tried to have me tried for contempt of court and put in prison or anything, you know. They were just practically frothing at the mouth, I guess. But then I told my attorney how it happened, that it was only eight hours ahead because of the time difference. So obviously I hadn't been trying to thwart the court.

REASON: Just as a sidelight to this, having gone through all of this experience with the US law and bureaucracy and with Swiss law and banks and bureaucracy, what's your general impression of the protection of rights in Switzerland versus the protection of rights in the United States?

HARWOOD: I'm now convinced that there's no place in the world that you're going to have protection from the bureaucrats. I'm sure that if the SEC and IRS and whatever agency of our government wants to get into any country in the world, they're going to get into it.

REASON: Is this because they just have enough leverage with the governments?

HARWOOD: That's right, and all the bureaucracies are just like our bureaucracies.

REASON: And the bank secrecy laws and other things in Switzerland don't provide that much protection?

HARWOOD: What bank secrecy laws?

REASON: That's pretty chilling.

HARWOOD: I mean as far as governments are concerned. It isn't so much the bank people as it is the government bureaucrats. In our particular case, though, all the assets were in Swiss Credit Bank. They knew—had the means of knowing—that everything was as it should be. But they had that big Ciaso scandal going on, remember?—involving the bank president, his deputy, and other bank people who ordinarily graduate to the Swiss Banking Commission when they retire. And they had so much to hide they backed way and couldn't stand up to it.

But let me go back a little. My wife and I were still in Switzerland and by February of '76 we were down to only 3,000 francs. Everything I could put my hands on ordinarily was blocked. They had even sealed my safe deposit box in the Swiss bank, but after I had taken out what I had in there, fortunately. And what I had in there gave me the opportunity to start a little publication, *Phoenix Economic Bulletin*, in Canada—published it in Canada—and invite people to contribute to our legal expenses. Well, before I had any results from that I was required by the court procedures in Switzerland to put up 500,000 Swiss francs to maintain my suit there. I didn't know where in the world I was going to get 500,000 Swiss francs, and a person whom I may have met sometime, but had no recollection of having met, flew to Switzerland in her private jet, with her financial man, invited me to dinner, and asked me how things were. When I told them the story she gave me 500,000 Swiss francs.

REASON: This was one of your subscribers?

HARWOOD: Yes. And it was just manna from heaven. And then a week or two afterwards, contributions began to come in from people who'd gotten the first *Phoenix* publication in January. And from then on we managed to have enough money. AIER had to go through three firms of attorneys before they found one who'd stand up on its hind legs and take the SEC. And hiring each group and giving them enough money to get familiar with the situation would cost $25,000. So it sewed the Institute up, too.

REASON: After the SEC got finished and the thing was finally resolved, did the investors get all of their money back? [AIC, and later Harwood, settled with the SEC; although court proceedings and a court-appointed audit found no embezzlement or destruction of records, under a 1976 Swiss Banking Commission order, all the Swiss-held assets had to be returned to US investors.]

HARWOOD: All of the investors now have all of the money they were entitled to, with a very minor exception in the case of people who had sovereigns on deposit, where there had been a guarantee of a relatively small amount, and they are still short about two percent of the sovereigns. However, the money for that is sitting in Switzerland, and eventually they'll get that, I'm quite sure. But the legal processes are still going on over there.

I'm now convinced that there's no place in the world you're going to have protection from the bureaucrats.

REASON: As a result of all of this experience with the SEC, what's your overall assessment of it as an institution to protect investors, which is what it was set up to do?

HARWOOD: It's a horribly big minus quantity.

REASON: It's worse than nothing at all?

HARWOOD: Worse than nothing. I'll tell you why it's worse than nothing. It has facilitated tremendous losses for investors by the red herring. You know what the red herring is? Any firm that wants to sell securities has to get out this voluminous documentation, but there's red print on the front of it indicating that the SEC has not approved it. Any investor confronted with all that paperwork thinks, *Well, of course, maybe they haven't approved it, but what are they there for but to protect me? Why do they exist if not to protect me?* So he assumes that somehow they're protecting him.

REASON: Giving him a false sense of security.

HARWOOD: And here's what happens as a result of that. I'd have to compare it with '29. In the latter part of '28 and '29 there was a tremendous amount of new issues. And of course the Wall Street procedure for selling a new issue is bring it out at a price and a number of brokers get an allocation of it, and they run the price up. They just jigger the price, that's all, back and forth, and it's the rising price that attracts investors. And when they figure they've got enough attracted, they unload. In a period like '28-'29 the brokers' profits from this are enormous, of course, and they're encouraged to bring out any old thing and sell it to the public. And the losses to the public, as a result of the sort of stuff that was brought out at that time, ran into the billions.

But there was a similar situation in 1967 and '68, shortly after the peak of the prolonged bull market. The peak came in late '65, early '66, and in this instance the peak of new offer-

ings came after the peak of the market, instead of before. You see, it was a different situation. After the peak of the market in '29 there was a great panic, and you couldn't sell any securities to anybody. That came very quickly. But after the peak of the stock market and the prolonged boom from about 1935 or '36 until 1965 or '66, the peak there came before the tremendous new offerings, and there was no catastrophic decline to discourage the new offerings. There was still the hope that the stock market would continue up. Well, the brokers just made a killing. The SEC approved a tremendous volume of new issues in '67-68, and the brokers kited those up—most of them within a few weeks were up to double their offering price. You can imagine how that pulled in the suckers. And I calculated, from the actual prices of those things and what happened to them, what the losses to investors were, and it was many times the 1929 one.

REASON: You mean in terms of subsequent price declines from the artificial price at the offering?

HARWOOD: Yes. I published an article on that, and the SEC didn't like it. But anyway, there's no doubt in my mind that it never would have happened to that extent but for the SEC. Now, every time there's been some kind of a scandal, like the Vesco scandal and so on, the SEC has stepped in and made a big hurrah about it. But damnit, they've never stopped any losses to investors. They're always after the fact. I don't think they can cite one example. I'll bet you they can't cite one example where they have stepped in in time to stop a big swindle like that.

When you've got a polluted money supply, you've got problems everywhere, and you hardly know where to begin to solve them.

REASON: You're basically saying that all it does is cast a security blanket, a deceptive security blanket, over...

HARWOOD: Over the fast buck artist and so on. And they know how to take advantage of it, believe you me. From the day the SEC was formed, every publication the Institute issued was sent right away to the SEC. We never advised investors to do a thing that we didn't send to the SEC.

REASON: Were you required to do this?

HARWOOD: No, we made it a policy.

REASON: Did you ever in all that time hear any word back from them until this whole incident?

HARWOOD: Never. I doubt if they ever read the stuff. They *couldn't* have read it—they wouldn't have been so dumb.

REASON: Were there any specific economists, economic thinkers, on whom a lot of the Institute's work relied for inspiration over the years?

HARWOOD: I would say, generally speaking, the older school of economists—not Keynesians, but people who had themselves published very scholarly criticisms of Keynes's work, like Professor Hutt, Henry Hazlitt, and Hayek. They are people who saw at the same time that I did the fallacies in Keynes's work and had written extensively about it, all of which helped to confirm me in my viewpoint.

REASON: Are you acquainted with any of these people?

HARWOOD: Oh, yes, I've known them for a long time.

REASON: And have they written for publications of the Institute?

HARWOOD: No, no. AEIR has a by-laws provision, that the Institute will publish only the work of its staff and associated members.

REASON: I see. Hayek several years ago proposed a relatively new idea—that the only real solution to the problem of unsound currencies is to remove the government monopoly on issuing of money. What's your reaction to that?

HARWOOD: I think it's probably a good idea. I don't expect to see it happen. I think Hayek, whom I've corresponded with and feel I've gotten to know, although he's spent his whole life trying to counterattack these unsound economic ideas, to some extent we do not agree fully with him. He is one of the older school of economists who unfortunately, though they did some remarkable work and in many respects I think are sound, also are in difficulties in spots because they have used the older procedures of inquiry. Long ago it became apparent to me that economists did not agree even before Keynesianism, and so I began to probe this. What is it that accounts for the disagreement? And that took me into the field of philosophy, of scientific methods, and so on. And after a number of years I had grasped what Dewey and Bentley were talking about. The work had begun earlier with Charles Sanders Pierce and William James, and then it was Dewey and Bentley who brought that line of thinking to a useful stage of development. And I could see that they had put their finger on one of the reasons for the divergences among economists. And I formed the Behavioral Research Council with Dr. Handy and others in order to give wider circulation to what seemed to be sound ideas of useful procedures, and we published a couple of books along those lines, which have not yet had a great deal of influence.

REASON: Who's Dr. Handy?

HARWOOD: He is now the president of AIER. In my opinion, he is one of the most brilliant and able men alive today. He is well ahead of whatever I was, and I'm very happy to see him there. And I'm sure that he's going to have a very brilliant future.

REASON: Is he an economist by training or...

HARWOOD: No, he's a philosopher I met in the '50s or '60s, and we got together on forming the Council. But it's surprising how slow the cultural lag is. I thought that in a lifetime I could do what then seemed to be needed to be done, but I find it's going to take two lifetimes, and I haven't got the other lifetime, so...maybe it'll take more.

REASON: What's your view of two proposals that have been talked about a lot recently: a constitutional amendment on the one hand to balance the federal budget, as the National Taxpayers Union has proposed, and on the other to limit federal spending?

HARWOOD: Well, perhaps both would be useful. Anything that would limit spending and cause a careful look at things and full consideration of more distant costs versus today's costs would undoubtedly be helpful. I'm not at all sure they would solve the problem, though, and I think that until we get disciplined money, the discipline of gold in the system... You see, money is so pervasive. And when you've got a polluted money supply, you've got problems everywhere, and you hardly know where to begin to solve them.

REASON: So you see the basic answer as going back to a

classical gold standard?

HARWOOD: I wouldn't call it going back. But anyway. You have to realize that the gold standard as it came to exist before World War One was not something that some economists dreamed up; it was not a theory developed or anything like that—it was an evolutionary process, part of the cultural evolution that made possible sufficient money to enable the transactions that occur with vastly expanding production. If you'd told any economists in the world—or anybody else for that matter—after the Civil War that in the next 80 or 90 years the production of things men want and are willing to buy is going to multiply 50 times, and asked, "Please tell us how to provide a money supply?" who would have had any idea how to do it? But it evolved, from practical experience, and what it became was sound commercial banking, where the things that were produced and sent to market were monetized by bankers who credited the account of the manufacturer with the gold exchange value of that item. You realize that when a checking account is credited by a bank not by your bringing in cash and putting it there, but by the bank just writing on the books a credit to your account—well, that puts money, checking accounts, in circulation. But as long as the flow of new checking accounts represented things flowing into the markets, there could be a balance. You had all of the money, so-called, in circulation or potentially in circulation represented either by gold, which the banks were always offering on the market, or by things coming into the market. Then you don't get an imbalance, except as the bankers become over-optimistic and misjudge the gold exchange value of some items, or if other unfortunate things interfere with the system.

REASON: Critics of the gold standard say there isn't enough gold to go around to permit trade to expand as it otherwise would. How do you respond to that charge?

HARWOOD: That's exactly why there was the cultural evolution of commercial banking—because there *wasn't* enough gold to take care of all the transactions. So they devised commercial banking. No economists started it off, though; there was never an economist alive who had the wit to think that up. It just evolved because it was obviously necessary—obvious to a banker. He's got a gold reserve, and he can create more claims against it and not go broke provided those claims are covered by an equal value of something else.

REASON: What about the charge that's been made of late that what we've seen in the gold price over the last five years demonstrates that gold is too unstable a commodity to be the basis of a money system?

HARWOOD: Well, of course, the thing that's unstable is the paper money. Suppose you have a piece of gold. Russia goes into Afghanistan. Does it change in any way? Is there any danger it's going to change? The gold in that might have been mined 4,000 years ago. That's stable. Given enough time, enough decades, it's stable in relation to human labor, in relation to most of the commodities you think about, and so on. But why are people concerned about the paper dollar when Russia goes into Afghanistan? Maybe a war is imminent, maybe the dollar will be worth much less in a little while than it is now. They want to get into something that will be stable when the excitement is over.

REASON: As you look at politics today [September 1980], particularly the presidential race, do you see that any of the candidates seem to evidence a good understanding of money and financial matters?

HARWOOD: One might almost say, obviously not. Reagan does have as an advisor this chap Kemp, Congressman Kemp, whose idea of reducing taxes and thereby encouraging more production has some use, but it is not a panacea. If it just resulted in a wider spread between government expenditures and government intake it would only expedite inflating, and the psychological effects of starting it are difficult to judge. But I understand that they're thinking of trying to make use of it gradually over a period of three years. If they did that, and took other steps to cope with various problems, it might in some degree work. I don't think anyone can say. It's a neat theory, with a beautiful curve.

REASON: The Laffer curve.

HARWOOD: But that's the sort of thing that is typical of the older economists and the less useful methods of inquiry. It's the thing that in a particular set of circumstances can be correct. It might be that at a lower rate of taxes you get more total tax collections, but just because it happened once is not an assurance it'll happen again. So it should be tackled very slowly.

People's real incomes have been going down, and that makes them think. Get enough people thinking, and you can't tell what they'll do.

REASON: There have been, over the last few years, what seem to be important shifts—a shift of policy on the Federal Reserve Board toward deciding to get the money supply under control, or at least saying they're going to. There's a new mood of budget balancing in Congress. There's a general tax revolt going on in this country. Are you any more optimistic about the future of this country now than you were, say, five years ago?

HARWOOD: If I weren't, I probably would have cut my throat. I think that some of the people are being hurt so much that they're waking up. It's now, I would guess, about two or three years that, in spite of all sorts of increases in wages, people's real incomes have been going down. And I think that's a very strong inducement to common sense. It makes you think. And get enough people thinking, and you can't tell what they'll do. They may do a wise thing. And I think they made enough noise, particularly out here in California, so they've got the politicians running scared. After all, what does a politician want? He wants his job. And no politician, no man, no human being, can do what a politician has to do, go around and cultivate all those votes and satisfy all those people, and still know anything about what he's doing. So what we've got to have, if we're going to be saved, is enough people hollering loudly enough that the politicians react to it.

REASON: So you are encouraged by the kinds of things that people are hollering about nowadays as opposed to four or five years ago?

HARWOOD: I'm always encouraged when I see a little bit of evidence of more people exercising common sense than they seemed to before.

REASON: Okay. Thank you very, very much. It's been quite enjoyable and really a treat. ◧

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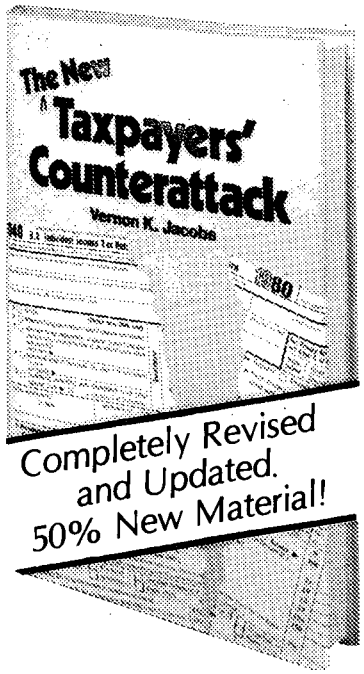

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COSTA RICA: Still the "Switzerland of the Americas"?

By Charles R. Sexauer

With Nicaragua on one flank and Panama on the other, can Costa Rica be a safe haven for you or your money?

"COSTA RICA is one of only a handful of nations that qualify as ideal for Americans to live. It also offers some of the best long-term investment opportunities in the world." Best-selling financial author Doug Casey is not the only one to so conclude. Costa Rica is often described as the "Switzerland of the Americas," and for the many Americans looking for a second home, a retirement haven, a long-term industrial or agricultural investment, a tax and money haven from which to conduct offshore investments on a worldwide basis, or simply a pleasant vacation destination, Costa Rica does have a lot to offer. Its recent de facto devaluation of the colón from 8.60 to the dollar to a floating range of 13 to 17 has made this a particularly opportune time to consider some of these options.

CULTURAL CLUES

Costa Rica was ruled by Spain as part of the Central American Federation for the first 250 years of its existence. Unlike most of the colonized areas of Latin America, however, the Spanish conquistador and his legions were not pitted against a relatively large indigenous (Indian) population. Since there were no large treasures of gold and the Indian population was limited, mining ventures and large-scale plantation farming were not feasible. As a matter of fact, Costa Rica was a backwater of the Spanish colonial development and, to its good fortune today, attracted only rugged individualists willing to wrest their livelihood from the soil. Not having inherited the old plantation system, Costa Rica today does not suffer the social problems of so much of Latin America.

After independence from Spain was declared on September 15, 1821, there followed an era of democratically elected governments. In 1948 the nation had its "revolution" when the left-wing candidate was charged with election fraud and ousted by the Liberacionistas, led by "Pepe" Figueres. A new constitution drafted in 1949 abolished the army and established the current framework of government—an executive branch made up of a president, two vice-presidents, and thirteen ministers; a legislature composed of 57 deputies; and a judiciary headed by a supreme court and four ap-

pellate courts. The judicial system is based on civil rather than common law, and does not use juries. The constitution guarantees equality before the law and freedom of speech, assembly, press, and organization. It guarantees foreigners the same rights as Costa Ricans except for participation in political affairs.

Although the country has a multiparty system, the Partido Liberacion Nacional (PLN) continues as the single dominant party. A coalition of smaller parties under the Unity banner, however, managed to get its candidate, Rodrigo Carazo, elected president in 1978. The 1982 election is now heating up, with Luis Alberto Monge (PLN) and Rafael A. Calderon (Unity) already selected as candidates. Measured by the US political spectrum, the Liberacion party would approximate Democratic standards, while Unity would come closer to Republican principles. The Communist Party operates legally as it does in the United States, but it has never been able to garner more than three percent of the vote.

The Costa Rican population is unusually homogenous, both ethnically and socially. Excepting the some 10,000 Indians and blacks who immigrated from Jamaica in the early 1900s, most of the population is descended from the original Spanish settlers, while the more recent waves of European immigrants make up the balance. German, Italian, French, Dutch, and some 15,000 Americans are included in the latter group, as is an increasingly important Japanese community with connections to Japanese multinational companies.

A rising level of education and family planning has led to sharply lowered birth rates and a relatively low 2.4 percent annual population gain. Still, Costa Rica is a young country, with 53 percent of the population below 19 years of age.

There is a high degree of social mobility, and the large middle class is politically and economically influential. Although there is an ongoing urbanization of the population as industrialization develops, the current mix still shows the rural sector a dominant 57 percent of the total.

INVESTMENT INSIGHTS

Fully 30 percent of the national budget is dedicated to education, by far the largest item. Even the most remote hamlet in the countryside has its one-room schoolhouse. The level of education is one of the highest in Latin America and includes public, vocational, and technical schools plus two universities. Private education ranges from a variety of foreign language schools through a number of technical schools and the recently established Central American University.

Like the United States, Costa Rica has a minimum-wage scale, although it is based on a six-day, 48-hour week and encompasses three basic work categories with different minimums. Labor unions are free to organize and are particularly strong in the banana companies and, more recently, in governmental services. Measured by US standards, wages and salaries are low, even though they range at the top among Latin American countries. With the recent devaluation of the colón, they have become even lower.

Historically, Costa Rica's growth has been based on a solid agricultural economy. The rich volcanic soils covering much of the country, coupled with ideal year-round growing weather, make agricultural development a natural catalyst for all other activities. A trip into the green countryside dramatically reveals the fertility of the land; almost everywhere, untreated fence posts sprout into trees.

Coffee and bananas have been the two dominant export crops, with sugar, cocoa, and meats rounding out the list of traditional products. Recent agricultural projects, many under the aegis of foreign capital and management, include macadamia nuts, ornamental plants, spices (especially black pepper and ginger), and the newest entrant, the jojoba bean. The varying altitudes, from the mountain sides to the central valley and down to the tropical lowlands, provide desirable growing conditions for a great variety of crops. With less than 50 percent of the land potential in production and much of that in lower-yielding sectors, agricultural expansion still is very viable. About half of Costa Rica's agricultural production is exported.

Since 1959, when a system of tax incentives was introduced, the government has focused on encouraging industrial development. In 1963 Costa Rica joined the Central American Common Market, with an estimated population of 20 million. Initial emphasis on industries geared to import substitution, particularly nondurable consumer goods, has shifted to consumer goods industries with export potential. The overall shift from agriculture to industry is reflected in the employment figures: in 1960 agriculture employed 50.7 percent and

industry 11.4 percent of the labor force; by 1978 the figures were 32 percent and 16 percent, respectively. Over the past 15 years industrial growth has become one of the highest in Latin America, with an average annual gain of 10 percent per year. Food processing dominates the industrial sector, followed by chemicals and fertilizers, metal and metal working, textiles and clothing, and wood and wood products.

The basic utilities and the insurance industry are under national government control. The banking system was nationalized when the Liberacionistas took power in 1949, although a number of international banks and finance companies function in all banking areas except demand deposits. CODESA, which acts essentially as a government development bank, is dedicated mainly to helping finance large industrial and agricultural projects and in some cases acts as a partner in the project. COFISA is the private-enterprise counterpart, which usually undertakes projects of a more limited scope. A national stock exchange, Bolsa Nacional de Valores, was organized five years ago to trade in shares, bonds, and the US dollar.

Fairly high yields and rapid increases in property values tend to make up for the lack of financial leverage.

PROPERTY POINTERS

Private ownership of land is in general encouraged and protected by the laws and constitution of Costa Rica. Foreigners enjoy the same rights as citizens, with a few minor exceptions. Of great interest to investors is a very safe system of title registration that protects the buyer from hidden claims. All titles are inscribed in a central national property registry, and in order to be valid any change in the status of the title or any claim that would affect it must also be duly inscribed therein.

Costa Rica has available a broad spectrum of types of property but not a very large selection of any one kind. There is a notable lack of industrial or commercial park development, as well as apartment houses and condominiums, although the need for both of these is coming to be recognized. Zoning regulations are far less stringent than in the United States. Subdivision approvals are required from the housing authority, the local municipality, and the Ministry of Health.

A lack of adequate financing at economically feasible rates makes development more difficult and less profitable than in countries where substantial financial leverage can be obtained. Fairly high yields and rapid increases in property values—due to a growing population and economy—tend to make up for the lack of leverage, however.

Good agricultural land, in moderate quantities, is available for a wide variety of crops. Prices seem to be high compared to past experience but are reasonable compared to the United States and low compared to Europe. Prices tend to reflect productivity, except for cattle land and where there is development potential for commercial purposes. In areas suitable for commercial development or tourism, prices seem to be limited only by the sellers' imagination and can be totally erratic. Excellent properties of all kinds are available throughout the country at prices consistent with their present productivity or value for intended use.

In areas outside the metropolitan San Jose area, many buyers are discouraged by the lack of highway access, electric power, municipal water, etc. As many are aware, the time to buy this kind of property is before these improvements if the property is basically good and the general area and economy are growing. Costa Rica is growing and, more importantly awakening to its growth potential. The fact that the last five years have shown a marked shift from selling to buying among Costa Ricans themselves is a significant indicator.

The biggest problem with Costa Rican real estate is that the banks will generally not finance the purchase of land. Although there are some exceptions, loan processing tends to be exceedingly slow and interest rates high, depending on the intended land use. Most land financing is carried by the seller at somewhat lower interest rates, which accounts for the general patterns of high downpayments, short terms (two to five years), and high interest rates.

All things considered, the laws and land ownership are quite liberal, and the rights of private property ownership are solidly based in the constitution and the law and have a long tradition in the Costa Rican culture and society. The favorable implications for investors are obvious; there are few places in the world where the acquisition of land could be safer than in Costa Rica.

REFUGE REASONS

Costa Rica is probably the least-known and least-understood money and tax haven in the world. One explanation is that the country has never advertised itself as such. Yet this very anomaly makes it a worthwhile consideration for those who want true secrecy in their international investment activities.

What makes Costa Rica so different from other, better-known havens, such as Switzerland, Cayman, Liechtenstein, and the Bahamas? All the laws on the books involving secrecy, anonymity, and tax benefits were written *by* Costa Ricans *for* Costa Ricans. The offshore investor who sets up a Costa Rican investment company is the incidental beneficiary of these laws. In other havens, these laws were specifically enacted to protect the foreign investor with special benefits that do not accrue to its citizens. This creates dangers of international pressures against an officialdom that has no vested political interest in the laws. So there is always the danger of repeal of protective laws in these other jurisdictions.

Then there is the cost factor, one which strongly favors Costa Rica. Lawyers, accountants, and trustees set their fees to serve their Costa Rican clients. Although overcharges of the foreigner can occur, there is no industry of high-priced lawyers and trust companies that exist only for the foreign investor, as is the case in most established tax havens. Setting up a corporation in Costa Rica costs the international investor approximately $600-$700. Servicing that corporation, which includes a required annual audit, costs around $250 per year. Fiduciary or trust services are also available at an annual fee of ¾ to 1 percent of the value of the holdings.

A Costa Rican or a Costa Rican corporation can deal anywhere in the world without a capital gains tax liability. This corporation can also buy US Treasury Bills or bank CDs with no income tax liability. Costa Rica has no tax on income earned outside Costa Rica; within Costa Rica, all government and bank instruments are free of tax.

Costa Rica has no foreign exchange controls on the movement of funds, and there is no requirement for conversion to local currency, as there is in many other jurisdictions. For those who choose to invest in Costa Rica in local currency, there is an unrestricted free market in exchange from or to dollars. Investments made in dollars stay in dollars, and those dollars may leave the country at any time.

Americans have been attracted to Costa Rica for years because of its favorable climate and relatively low cost of living. In 1971 the Costa Rican government passed a law designed to attract foreign retirees who can prove a certain fixed income from abroad and will not be employed locally. To date this law has encouraged the settlement of some 30,000 people, about half of whom are Americans. The law's provisions require $300 certifiable outside monthly income, $500 for annual residency of less than six months, permits the importation duty-free of a small automobile, and offers an exemption from duties and taxes for up to $7,000 in household furnishings and personal effects.

An extra attraction for what Doug Casey has dubbed "the international man" is the availability of a Costa Rican passport without change of citizenship. This can be arranged for anyone who purchases at least $10,000 worth of property and puts at least $30,000 into other Costa Rican investments, which can be in any certifiable form.

CURRENT CONCERNS

Costa Rica shares with many developing nations the problems of the rising costs of energy and capital goods against a relatively static exports price level. The price of coffee, Costa Rica's chief dollar earner, has actually fallen substantially, more than enough to offset increasing exports of nontraditional items. As a result, the trade deficit has widened to almost $500 million. At the same time government budgets have moved into mounting deficits. Between 1974 and 1979, revenues increased at a 17.6 percent annual rate while expenditures grew at a 26.7 percent rate.

The political scandal of the previous government, centered on the US refugee financier Robert Vesco, has been replaced with new scandals involving arms smuggling, first to the Sandinista movement in Nicaragua (admitted) and recently to the rebel forces in El Salvador (hotly disputed). The Carazo regime has sunk to new lows in popularity, and for the first time there has been popular concern over whether the nation will make it to the next election in 1982. (Without an army, however, Costa Rica is unlikely to undergo the sort of political upheavals known to its neighbors.)

COSTA RICA AT A GLANCE

LOCATION	Southernmost nation of the Central American Common Market, bordered by Nicaragua on the northwest and Panama on the southeast.
AREA	19,653 sq. mi. (size of West Virginia). A mountainous isthmus 74-190 mi. wide. Coasts: Caribbean, 140 mi.; Pacific, 684 mi.
ALTITUDE	3,800 ft. average—San Jose and Central Valley; 12,000 ft. maximum.
CLIMATE	San Jose and Central Valley, 80° F average high; 60° F average low. Rainy season May to November. Average rainfall 100 in. in the Central Valley.
POPULATION	2,180,000. 600,000 in San Jose metropolitan area. Annual growth 2.4%. Life expectancy 71 years. Literacy rate 91%.
ECONOMY (1979 figures).	Gross domestic product: $3.99 billion. Government expenditures: $0.82 billion. External debt: $1.3 billion. GDP per capita: $1,824. Exports: $922.9 million. Imports: $1,270.0 million.
TRANSPORTATION	16,304 mi. road, 639 mi. railroad.
AIR DISTANCES	Miami: 1,123 mi., New Orleans: 1,178 mi., Los Angeles: 2,743 mi.

These are the negatives, and they are well-known. The international investor might well look beyond them, recognize the bargains created by the de facto devaluation and the air of uncertainty, and examine the positives, some of which have already been related.

Further favorable factors include some very significant economic and political developments. Probably the single most important factor in an era of increasingly high energy costs is that the nation's electricity is now derived entirely from low-cost hydroelectric power. The current 770,000 KW of installed capacity will almost double on completion of the Boruca project but would still be a small fraction of the nation's estimated 12 million KW hydroelectrical potential. Mexico and Venezuela, with political interest in the survival of Latin America's most exemplary democratic government, have provided Costa Rica with its domestic oil requirement on very favorable terms.

Costa Rica shares with many developing nations the problem of the rising costs of energy and capital goods.

The most significant political factors are those occurring outside of Costa Rica with the succession of more conservative governments in the Caribbean area, such as in Jamaica, and of course the election of Ronald Reagan. A Reagan administration is expected to help stabilize existing governments in Central America while discouraging the various Marxist-sponsored insurrectionists.

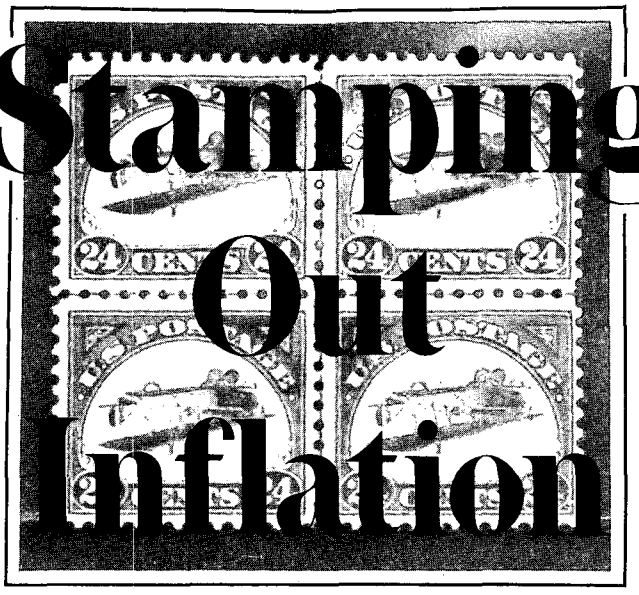
OPTIMISTIC OMENS

With the new 200-mile fishing zone, Costa Rican waters have been extended to an area of 200,000 square miles, almost 10 times its own territory. Norwegian interests are negotiating a $60-million tuna fishing project. An Italian group has recently commenced production of modern facilities for shoe manufacturing, which they claim could equal coffee export earnings by the end of the decade. An American firm has started development of a $30-million

(Continued on p. 83.)

By Fred E. Foldvary

"Stamping" Out Inflation



Can pieces of paper issued by the government protect you from paper money?

DURING THE PAST DECADE, stamp collectors have seen their hobby—philately, to those in the know—turn into a premier investment field. Especially in the last five years, stamp values have zoomed to stratospheric levels, and many collectors now have to compete with the pushy new investor dollar in order to complete their specialties.

The year 1847 saw the first issue of US stamps—a 5-cent brown specimen showing Benjamin Franklin, and a 10-center picturing George Washington. In 1960 you could buy an average used copy of the Franklin stamp for $20. By 1970 its price had reached $50 and then jumped to $95 by 1975. By 1980 it had soared to $900, a gain of 847 percent in five years, amounting to a compounded rate of increase of 45 percent per year. For the 1970-80 decade the annual rate was 29 percent—still well above inflation.

The 10-cent stamp didn't do quite as well, only rising 444 percent from 1975 to 1980, for a compounded rate of 34 percent per year. Most classic US stamps rose at least 100 percent during this time, and some jumped by as much as 1,000 percent. If instead you had been smart enough to buy gold at $150 in 1975 and sell it at $700 five years later, you would have realized a 31 percent annual return. Thus many stamps performed as well or better than well-timed gold and other "hard assets" during those years.

With this impressive price appreciation, it is small wonder that many investors have been turning to stamps, and the resultant infusion of investment funds has in turn accelerated the increase in values. Of course, this has not occurred in a vacuum. The escalation of stamp values has paralleled that of real estate, precious metals, rare coins, gems, and other tangibles. The engine behind this movement has been inflation. Precisely because they are inflation hedges, the increasing demand for such investment vehicles has intensified their price rise.

But there is another factor behind the steady appreciation of stamps as well as coins: scarcity. The supply of genuine, fine scarce stamps is fixed and even declining as fires and other disasters take a small annual toll. Since most stamps are tucked away for long periods of time in collectors' albums, only a relative few are on the market at any given time. Meanwhile, the collectors have been increasing in number. The logical result of a tight supply and a steadily increasing demand has been the dramatic rise of stamp values not just during the last few years but the last few decades. This is likely to continue as long as paper dollars increase at the rates we've seen recently.

But price appreciation alone would not be sufficient to make stamps an attractive investment medium for the general investor. The lack of easily accessible and fluid markets keeps many esoteric collectibles confined to the domain of specialists. Not so with stamps, for there is a large, liquid market. Philatelists like to boast that theirs is the world's largest collecting hobby. The stamp market is made up of a worldwide network of thousands of dealers, philatelic agencies, brokers, wholesalers, auction houses, retail stores, clubs, and millions upon millions of individual collectors who buy, sell, and trade among one another.

The stamp market also offers freedom. The stamp trade is among the least regulated in the world. Sales and income taxes are applicable (of course), but there is no securities commission or commodity bureau to skew stamp prices, license dealers, or make the market go through contortions. In philately, supply and demand reign in supreme majesty.

Buyers and sellers in the stamp market can call upon the services of philatelic organizations that offer stamp insurance and expert evaluations, as well as an ample body of literature and information to guide traders.

Another reason why some investors are attracted to stamps is their privacy and portability. If you value your privacy, you can purchase stamps without any publicity, and they are easily stored in a small area. By weight, rare stamps are among the most valuable commodities on earth. They can be concealed and carried across hostile borders much more easily than, say, gold coins. During periods of war and chaos, with currencies, equities, and bonds collapsing into rubble, stamps have often served as a store of value, keeping wealth intact. A number of Europeans managed to preserve some of their assets during World War II through stamps.

Most investors probably aren't worrying, yet, about such calamities, but they do worry about the increasingly uncertain international economic climate. We live in an age of unpredictability. Scores of books, newsletters, and ads insist that a depression, hyperinflation, and social turmoil are imminent. Even without such scenarios, high inflation, shaky and unpredictable stock and bond markets, and roller-coaster gold and silver rides make a good case for a healthy diversification of one's assets. Any one investment medium, whether real estate, gold, stocks, cash, or stamps, is vulnerable and has risks. Diversification into many baskets is a wise strategy, and stamps offer a stable alternative for a share, perhaps up to 20 percent, of one's investment eggs.

Economic considerations aside, however, people are also attracted to stamps by their sheer beauty and interest. The 19th-century issues especially are miniature works of art, beautifully engraved, rich with detail. A nicely arranged stamp album can be a pleasing miniature art gallery. And some stamps, such as the Confederate issues, have a historic interest, as well.

So, many investors fall in love with stamps and then buy them for their enjoyment as well as the economic return. But to the investor, as opposed to the collector, such *amour* has its dangers. Emotional involvement can make the investor buy too high and then not want to sell at all. The rule should be: enjoy your stamps, but not too much!

A great advantage to stamps is their flexibility. They come in all prices, from a few pennies to million-dollar items.

WHAT TO DO FIRST

At this point, the novice philatelic investor may say, "Fine, I'd like to invest in a few stamps, but how do I know which ones to select?" The first thing to do is run out and buy a current stamp catalog. In the United States most stamps are described using the Scott Catalog numbers, so you may as well have a copy. If you are only interested in US stamps you can get just its US Specialized volume, either at a stamp store or by mail. It's also a good idea to acquire a Minkus Catalog (volume one for the United States and the British Commonwealth), which will give you some extra information. The Brookman catalog is smaller and has the most up-to-date prices, and the Harris *Postage Stamp Price Index* lists past prices as well.

Be sure to read the front section of the Scott Catalog, "Information for Collectors." It offers a good education on stamp paper, printing methods, and perforation types. If you can say what a *tête-bêche* pair is, you pass the test. Often an issue will be reprinted with a slightly different style, and a seemingly minor printing change can result in a huge difference in price. So it is wise to be able to tell the difference between, say, an engraving and a photogravure.

Unless you are already a stamp specialist, it is usually best to start investing in the stamps of the country you live in. These offer the most fluid market. And since you want to buy scarce stamps, you would be wise to concentrate on the 19th- and early 20th-century items.

With a very few exceptions, the smart stamp investor avoids buying new issues. Thousands of people are buying mint sheets of stamps from the post office on the sadly mistaken notion that they are building a fortune. The main beneficiaries have been the post office and future collectors. Precisely because so many thousands have been so foolish, stamp collectors can now buy most US stamps issued during the last 40 years at close to face value. Buying mint sheets from the post office should be considered not an investment but an act of charity.

The same goes for new and recent foreign issues, current first-day covers, and commercial gimmicks such as gold foil "stamps." Nowadays, many governments crank out stamps by the score to sell to stamp collectors. If you buy them, you are simply subsidizing some postal administration's deficit. This should not be confused with making an investment.

And what are the few exceptions? Occasionally there will be a new issue with a very limited printing, such as the 1976 Bicentennial Souvenir Sheets, which have risen substantially above face value. But except for these special situations, the only thing an investor should do with new issues is use them for postage.

SIZING UP STAMPS

In your stamp catalog you will notice that the prices are in two columns. The

first is that of a mint, or unused, stamp; the second, of a used, or cancelled, one. These catalog prices are only a rough indication, though, because the actual price of a stamp, whether used or unused, is determined by its condition. Catalog prices are for "fine" stamps, which means decent copies. A very fine or superb stamp—well-centered, with good coloring and no damage—will fetch a higher price, while an "average" or poor stamp—off-center, faded color, very heavy cancels, tears, or other damage—can fetch a substantially lower price.

As an investor, you want to buy only top-quality stamps. Since they are scarcer, they are likely to appreciate faster than the more common stamps of poorer condition. Although you will have to pay more for them, you will be able to sell them at top prices.

But going for top quality doesn't tell you whether to buy used or mint stamps, and here we enter controversial territory.

During the past few years a worldwide interest (some call it a fad or craze) has grown up around mint, never-hinged stamps. These must be post-office fresh, with nary a trace of hinge mark, fingerprint, coffee stain, or any damage whatsoever. (A hinge, for you tyros, is a specially gummed piece of paper used by collectors to mount stamps.) Naturally, such earlier stamps are extremely scarce, since back in the olden days collectors weren't so fussy and used hinges, or worse. A mint, never-hinged (MNH) stamp therefore commands a price premium as high as 25 percent or more above the price of a hinged mint stamp.

Many stamp collectors now believe that the MNH "craze" has gone too far and that it is mainly investors who have fueled the recent rush. The number one rule in stamp investment is: the ultimate price is determined by *collector* demand. Moreover, a market has developed for regumming hinged stamps, and often even the experts have a hard time telling a regummed stamp from an MNH.

There is another problem with mint stamps, hinged or not. Over the course of time, the gum interacts with the stamp's paper and can eventually damage the stamp. This has already occurred with some 100-year-old stamps. Ultimately, all mint stamps are doomed to self-destruct unless extraordinary steps are taken to preserve them.

Buying mint sheets of new issues from the post office should be considered not an investment but an act of charity.

Thus, while the MNH investors may well continue to enjoy superior price performance during the next decade or so, eventually the realities of collector demand and the physics of gum and paper can catch up with them. If you want to leave your stamps to your grandchildren, it's better to buy only used stamps.

My own preference is to concentrate mainly on fine used classics. A comparison of recent prices with those of 5 and 10 years ago shows that in many cases used stamps have performed as well as or better than many mint ones (see table below). So why worry about the gum?

SHOPPING AROUND

If you should want to branch out into foreign issues, the best ones are those of the relatively wealthy industrialized countries with an active home market. These include the United States, Canada, Western European countries, Israel, South Africa, Japan, Australia, and New Zealand. A good speculation might be a large country that is industrializing rapidly, such as China or Saudi Arabia. Stamp collecting in the People's Republic of China has recently been given an official okay, thus a huge potential demand both there and in Taiwan could send the early, scarce issues skyrocketing.

In the United States, most of the issues up to about 1926 and the air mails to 1934 could be considered good investment material. The cheap, common stamps selling for $2.00 or less should be avoided. Common stamps will always be cheap, no matter how old.

Compare recent prices with those of 5 or 10 years ago to see which ones have advanced the most. (Get an old catalog or the Harris index.) If a particular stamp has recently doubled or tripled within a year, however, it's best to stay away. Stamps do occasionally have their fads and their ups and downs. By diversifying over several issues, you will most likely enjoy a steady and rapid price rise in your investments as a whole.

When you sell your stamps, you may want to determine the compounded annual rate of increase to compare with alternative investments. The formula for computing this is: $R = 100 \times (\text{Ln } I)/N$. Subtract the selling price from the buying price to get the net increase, I. Calculate the *natural* log (not the base 10

SELECTED US STAMP PRICES

Scott Catalog Number	Type	Year of Issue	Price 1975	Price 1980	Percentage Increase 1975-80	Percentage Increase Annual Compound
7	mint	1851	$125.00	$500.00	300%	27.7%
7	used	1851	25.00	110.00	340	29.6
30A	mint	1860	80.00	365.00	356	30.4
30A	used	1860	35.00	185.00	429	33.3
245	mint	1893	825.00	4,000.00	385	31.6
245	used	1893	395.00	1,700.00	330	29.2
517	mint	1917	9.00	110.00	1,122	50.1
517	used	1917	0.28	0.60	114	15.2
C14	mint	1930	375.00	2,300.00	513	36.3
C14	used	1930	175.00	1,200.00	586	38.5

SOURCE: *Postage Stamp Price Index* (Boston: H. E. Harris & Co.), 1980-81 edition.

logarithm) of I (easiest with a math calculator). Divide this figure by the exact number of years, N, figured to the day (for example, 5.68 years). Multiplying by 100 gives you the percentage rate of increase, R.

Just as stock investors keep up with the market via specialized newsletters and papers, stamp investors subscribe to stamp newspapers and other periodicals to keep up with developments and get news of auctions and sales. The two main stamp newspapers in the United States are *Linn's* and *Stamp Collector. Canadian Stamp News* is handy for Canadian stamps.

Auctions are excellent markets for stamp investments, since the buy/sell spread is only the commission, usually about 20 percent. Retail stores and mail dealers usually have a larger spread, depending on the price—the cheaper the stamps, the higher the spread. You can visit stamp stores and dealers and examine the stamps you are interested in, noting the prices of specimens of various conditions. You can shop around and buy the best items at a given price range. When you bid at auction, you can try to buy the stamps at or somewhat below the current market price. Because of the buy/sell spread, stamps should be considered a long-term investment.

Stamps in most states are subject to sales tax. You can avoid this government surcharge by buying from out of state.

PROTECTING YOUR STAMPS

Counterfeits and altered stamps are sharks that infest the philatelic waters. Knowledge is your best protection. You can avoid getting bitten by having your stamps evaluated by experts. The Philatelic Foundation and other stamp societies offer this service and will send you a certificate of genuineness for a rather nominal price. Be sure to notify your dealer or auction house that you are sending the stamp to be evaluated. They should then refund your money if the stamp turns out to be a fake.

You can also rely on an investment stamp dealer or broker to select or buy your stamps and to guarantee their authenticity. Then you only have to be concerned with the reliability and judgment of the dealer or investment firm. Most dealers are honest, and you can usually avoid the few crooks by dealing with well-established firms that advertise that they are members of the APS, SPA, or ASDA societies.

If you invest in stamps, it is wise to invest also in stamp insurance. This can be purchased by joining some of the stamp societies, such as the American Philatelic Society (Box 800, State College, PA 16801) or the Society of Philatelic Americans (Box 9041, Wilmington, DE 19809). Besides the insurance and the availability of experts, you will get a monthly magazine with information and ads.

Remember that stamps are but bits of paper and very fragile. They should be stored in envelopes free from tape or acidic paper, or in stockbooks. It's best to use protective mounts if you keep them in an album. Store them in a cool, dry, dark location with good circulation and an absence of silverfish. Most bank vaults are okay. Stamps should be handled with a good pair of tongs, not with oily fingers.

Theft is always a problem. Security and privacy are your best protectors. It's a good practice to tear off the address labels from your philatelic periodicals before discarding them and to use a post office for your stamp mail.

If your stamps are stolen, call the police or your favorite protection agency and then immediately call this number: 813/898-7238, day or night. It is the APS stamp theft hot line, available to all, whether members or not. They will give you advice and notify stamp dealers to be on the lookout for your stamps.

There is no securities commission or commodity bureau to skew stamp prices or to license dealers. In philately, supply and demand reign in supreme majesty.

An excellent way to protect your philatelic investment is to microfilm your stamps. Keep the negatives separate from your collection. This will be of great help in recovering and identifying any stolen stamps.

FUTURE PROSPECTS

The primary investment reality today is the rapid depreciation of paper currencies. Another is heavy income taxation, which not only penalizes interest and dividends but also the price appreciation of equities. These two factors alone will, on the average, make tangible investments an attractive alternative. They will generally increase in value at least as much as the inflation rate, and the increase is not taxed until the sale, and then at the relatively favorable capital gains rates. On the negative side, a deflationary depression could bring down the prices of tangibles.

A great advantage to stamps is their flexibility. They come in all price ranges, from a few pennies to million-dollar items. You don't need to start out with a small fortune, as you do with diamonds. They are light and easier to ship than, say, coins. On the other hand, they are much more easily damaged.

Stamps have less intrinsic value than gold, gems, or even paintings. After all, we are dealing with a hobby. But in the end, what counts for the investor is the market value at present and in the near future. Even without inflation, the scarcity and wide demand for stamps would continue their decades-long steady increase in value. Inflation only accelerates this increase.

Large as philately is compared to other hobbies, the stamp market is still rather tiny compared to equities, commodities, or even gold. It doesn't take much money to move the market. As more stamp firms advertise in the *Wall Street Journal* and as investment firms increasingly turn their eyes toward stamps, there exists a potential for an even greater price explosion than has been seen in the past few years. ◻

Fred Foldvary is the editor of Postage Paid. *a philatelic journal, and has contributed numerous articles to philatelic magazines. He has been collecting and investing in stamps for 25 years.*

INVESTMENTS for the Little Guy

A FEW MONTHS AGO I was interviewed on a radio station in Chicago with a listening audience of mostly lower-income people. The thrust of the host's questions was that I am a bad guy because I don't have any good suggestions to help the poor beat inflation. That is like killing the messenger who announces the bad news that the cards are marked, the dice are loaded and the odds rigged, and the house wins most of the time. It is just a fact, as Gary North pointed out recently, that the game of beating inflation, taxes, and government is so stacked against you that sometimes there aren't a lot of options to select from in the search for solutions.

The mythical "average" subscriber to the *Ruff Times*, for example, is in his late 40s, has two to three years of a college education, and makes around $35,000 a year. He has between $10,000 and $50,000 in savings and investments and an inflated equity in his home. Not many years ago, he would have been considered one of the more affluent members of society. Now he is almost lower-middle class, and government is taking a larger and larger portion of his income as he gets ratcheted into higher tax brackets and inflation devastates his traditional investments (blue chip stocks, bonds, certificates of deposit, cash value insurance, etc.). He has this hard, cold knot of fear in his stomach warning him that the affluence he pursued and thought he had found is turning to ashes in his hands and his retirement will be nothing better than genteel poverty.

It is a mistake, though, to believe that "the little guy" with this much or even less can do *nothing* to preserve his savings and assets. Actually, the less you have, the more important it is to do so. The rich can better afford to make expensive mistakes and recover from them. Most people would be just as happy on $5 million as on $10 million if they lost half of it. But if they only had $5,000 and lost half, they would be devastated. Consequently, one of the most important things the person with $5,000 can do is simply get out of those investments that are being ravaged by inflation.

And what could you *do* if you only had $5,000?

- You could start accumulating some *food storage.* You can buy one bucket of wheat (45 lbs.) at a time, at approximately $18 a bucket.
- You could buy *silver coins*—a roll or a partial bag. Or you could do what my foster son David did. He spent a few hours going into banks and buying and checking rolls of half-dollars, and he managed to reap from his day's activities nine 40 percent silver Kennedy half-dollars worth $27. Total capital required? About $20 to buy the rolls. Total investment in his coins? $4.50. If you have more time than money and want to build a survival silver coin position, you can do that too. Dimes and quarters have been pretty well picked over, but there are still enough silver halves around to make it worth a try. (Look for 1965 through 1969 halves.) If your time is more valuable than money, then your kids might do it for you. You could put up the capital and share the profits and help them get the feel of survival coin accumulation.
- You could buy some bullion *gold coins.* A 2 Rand can be bought for around $73; one Krugerrand for about $545.
- You could become a *collector* of inexpensive semiprecious stones, baseball cards, comic books, or numismatic coins.
- You could *grow a garden* and become self-sufficient and independent, drying your produce in your oven or in the sun. Such books as *The ABC's of Home Food Dehydration* (Target, $4.50 plus $1.00 for postage and handling) show you exactly how to do it.
- If you have *unutilized inflated equity* in a home, you could borrow against it and put it to work with a beat-inflation program.
- You could *become politically involved* and try to bring about change. You can ring doorbells or stuff envelopes for the campaign of some free-market, honest-money-oriented candidate who might help to bring about some change. Ultimately, that might do you more good than having all the gold and silver in the world.

What *couldn't* you do if you had only $5,000? You couldn't buy a good one-carat diamond, and you probably would find it difficult to buy a big apartment house. But, using creative financing, you could go out with only a few thousand dollars and make a downpayment on a small house or duplex, fix it up, raise the rent and the market value, and trade for a bigger property. Great real estate pyramids have been built on less than $5,000. We have a marvelous opportunity for creative financing in this disrupted marketplace that is now a buyer's paradise.

Not being able to do everything, or do it all at once, is no excuse for doing nothing. If you think you have limitations and can't take good advice, you may be bitten by the wild dogs of inflation and economic disruption and you may die financially. ◻

Howard Ruff is the editor of Ruff Times, *host of the TV interview show* Ruff House, *and the author of* How to Prosper During the Coming Bad Years.

BY HOWARD J. RUFF

LOOKING FOR A SILVER LINING

Has silver finished its plunge?

BY WALTER PERSCHKE

When I first began investing and trading in silver, the major bullish argument was the shortfall in the world between reclamation and new mine production (supply) and total consumption, including coinage (demand). In 1980, for the first time in over 20 years, that shortfall changed into a surplus. This is a profound change: the supply/demand equation that had been so favorable for silver for so many years has now turned bearish.

SUPPLY-SIDE SILVER

Even the difference between consumption and new mine production that did continue to exist in 1980 was cut in half—to 100 million ounces, versus 178 million ounces in 1979 and an average of 200 million ounces from 1976 to 1979. This figure, of course, is only part of the changing fundamentals, since little of the silver that is recorded as consumed each year is ultimately lost to the world. Ultimate reclamation as a percentage of consumption is very high, and with the higher average prices for the metal we can anticipate that most silver listed as consumed will eventually return to the marketplace.

The experience with supplies from India is an excellent example. India has the largest reported cache of silver in the world and has been a frequent supplier to the world markets, averaging over 46 million ounces per year since 1975. Yet India produces no silver; its entire contribution to world supplies is from recycling!

There was another profound change in the supply/demand equation in 1980. For the first time in history, supplies from salvage exceeded new mine production. Melted coins increased to 55 million ounces in 1980 from 25.5 in 1979, and miscellaneous salvage was 121.5 million ounces in 1980 versus 80.5 in 1979. When prices rose, secondary supplies greatly increased, proving the free market's sensitivity to price. People have been selling silver coins, bars, and in many cases the family heirlooms—silverware, serving trays, bowls, and baubles. During a single cab ride through Baltimore recently on my way to appear on *Wall Street Week*, I saw six signs announcing "We buy silver and gold." I had a similar experience in Memphis. Probably none of those places was buying silver and gold a few months ago, let alone a year ago. But now they are buying from the public and turning the silver over to the refineries.

Although this massive reclamation effort has had a significant impact on silver bullion supplies, the melting of substantial quantities of US 90 percent silver coins has not, contrary to popular opinion, created new numismatic rarities among the survivors. The realities of supply and demand make this improbable. In relation to the total supply of 90 percent silver coins, the number melted is probably less than 10 percent. This has already moved the "junk" silver coins to a premium over bars, but the likelihood of greater profits on scarce dates in circulated condition is remote.

Although most of the coins are not specifically sorted for dates immediately prior to their melting, they have been sorted by millions of collectors and dealers over the years. My own experience is that, as a group, the coins passing through dealer hands are not *worth* sorting. Our sampling as far back as 1968 and 1969 demonstrated that it is not profitable to pay a knowledgeable person even the minimum wage to sort the silver bags coming in from the public. I cannot believe that 12 years later the chances of sending a premium coin to the melting pot are better than one in 10,000.

To return to the fundamentals of silver bullion: the recent market has seen a decrease in demand. Industrial consumption in the world was nearly 80 million ounces less in 1980 than in 1979. Production of certain items using silver was phased out or reduced because it was simply too expensive. Use of silver in coinage fell 12 million ounces in 1980—to 15.7 million from 27.8 million in 1979. While consumption was dropping sharply, supplies were increasing. Not only did reclamation increase, but many people were prompted by higher prices to look for new mines. In some cases, they found them; one mine that is larger than any mine now producing silver is expected to be in production some time later this year.

BEAR AND BULL STORIES

The significance of these basic changes in the fundamentals for silver cannot be overemphasized. Only the massive accumulation by private buyers of 122.6 million ounces in 1980 absorbed the supplies that would otherwise have depressed prices. But this demand is now reduced, primarily because the public only buys on the way up. As prices decline, speculators tend to become depressed and sell, adding to the supply side and pressuring prices still lower. I am not referring to the professionals, most of whom make more money on the way down than they do on the way up.

I'm talking about the "average investor," who may own a 100-ounce bar or a bag of silver. The psychology of the market has shifted to bearish, and over a period of time I think we'll see more of these people selling.

The underlying premise of the technical analysis of markets is that people tend to act as a herd. For example, one of the most commonly used rationalizations for holding on to a losing investment goes like this, "If I can just get even, I'll sell it." This creates what a chartist calls resistance. If a group of people bought something at $20, for example, and the price fell to $15, many of them are going to sell if it gets back to $20, and their selling will act as a depressant to the market, creating overhead resistance. People herd out the door on the way down and in on the way up, and that is what typically marks bottoms and peaks. It is this herd psychology that contributes to a long-term cycle in the price of silver.

In reviewing silver's price history for the last 20 years (see graph, below), we find peaks in 1963, 1968, 1974, and 1980; the time period between these market tops averages slightly less than six years. Three of these tops were followed by a decline lasting two to four years; the exception is 1963-67, when the price was fixed at $1.29 by government edict. During the periods of decline, silver lost most or all of its price gain from the previous bull market. In each of these four instances, approximately five years passed before that record price was exceeded. After that record price was achieved and surpassed, it took only about one year for a series of new peaks and a new record that would again stand for about five years. The similarities are too great to be coincidental, so let's take a closer look.

In May 1968, silver peaked at $2.58, exactly double its previous high of $1.29 set in the middle of 1963. It lost 60 percent of that gain in the next six months, then declined all the way back to $1.29 in November 1971.

The $2.58 price was not reached again until February 1973 (57 months after the 1968 high). Almost exactly a year later, in February 1974 (69 months after the previous peak), another long-term top was reached at $6.50. The decline from the 1974 peak was swift; 70 percent of the bull move from $2.58 to $6.50 had been retraced when the price reached $3.75 only seven months later in September 1974.

A trading range of $3.75-$5.25 prevailed until February 1979, when the previous high of $6.50 was surpassed. Once again, it had taken five years for the earlier crop of silver bulls just to get even.

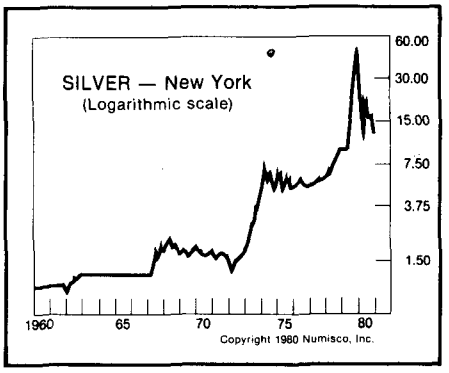
The most recent top in January 1980 occurred 11 months after the most recent appearance of the $6.50 price and 71 months after its 1974 debut. And, of course, nearly all (92 percent) of the gains from $6.50 to $50.35 were given back in the precipitous drop that lasted only two months but trimmed $40.00 from silver's plump $50.35 high. The price did recover somewhat and is now once again drifting lower. At my deadline for this article, March 5, the price is $11.80.

WHEN TO BUY

I made my first silver trade in 1967 when a new bull market was forming, and I was there at the 1968 peak. At the 1971 low and at the 1974 high, I was a floor trader in the silver pit. In the years since then, I have continued to trade and invest in silver (there is a difference), and I liquidated all of my holdings and those of my speculator clients on the way up, but not at the top, of this most recent bull market.

The only thing that was different about any of those earlier markets was the numbers. And there is nothing to make the next bear and bull markets any different either. At every previous top, scholarly dissertations and emotional exhortations implored *you* to buy silver. The bullish case found support in nearly every quarter, from dispassionate researchers armed with reams of statistics to less intellectual types whose fervor bordered on religious commitment. When everyone seemed to have jumped on board, that was the top.

The converse, of course, was true at major bottoms. In November 1971, when silver broke down through $1.30, I can recall projections of 90 cents and even 60 cents by "experts." The former bulls had dissipated their gains by riding the market down. They became so discouraged they failed to recognize that their mount had metamorphosed and they were now riding a bear. When at last they could ignore it no longer, they sold out. The bottom had been reached, and the market turned around.



Markets change their trends, but people tend to act the same way under the same or similar circumstances. People, unlike markets, can be counted on to react to news stories and to the enthusiasm or disparagement they receive from their peers. (Markets, on the other hand, sometimes give us a clue that they may be ready to tire or change directions when they fail to respond to news that should reinforce the existing trend.)

For long-term investors (five years or longer), I advise waiting for a better opportunity to buy. This bull market is dead, and we will have to wait some time, measured in years, for the next one. This is not the time to commit to long-term holdings of silver for at least two reasons. First, there will be a time to buy it cheaper, probably in 1982 rather than 1981. Second, if you purchase now and have the chance to buy at the same price in a year or two, you will have lost the opportunity to invest more profitably in something else in the meantime. Although I don't recommend debt instruments as a general rule, they are a lesser evil than silver at present. If you invest $1,000 now in a two-year US government T-bill or bond at a 14 percent rate, it will be worth about $1,300 at maturity. You would then have more money with which to buy silver—and at lower prices.

The long-term cycle I have discussed suggests that it will probably be mid-1982 before silver reaches its ultimate bottom for this phase and late 1984 or early 1985 before the current record of $50.35 is exceeded. It is also possible that we have seen a very long-range top in the metals and that we will not see $50 silver again for another 20 years. I don't think this is probable, but it is possible—perhaps a chance of one in three or four. Any argument for higher silver prices is based on continued inflation. Continued inflation is not a guarantee of higher silver prices, but it is a prerequisite. If you accept the deflation scenario as a possibility or probability, to that extent you must be bearish on precious metals.

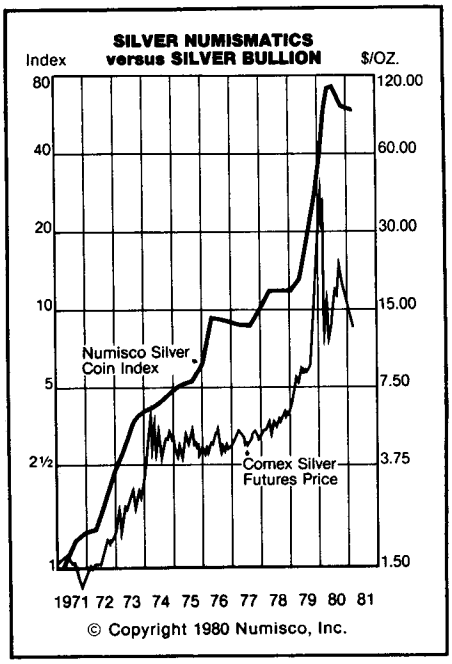
Timing is the most important ingredient in any market decision. Even the worst "cat" or "dog" can be a good buy just before the rally, and the "bluest of chips" can be a profitable short just before the sell-off. Being right long-term can be profitable. Being right at the right time can multiply those profits five- and tenfold.

AND IN THE MEANTIME?

I would advise long-term holders to lighten their existing positions if significant rallies (above $14-$15) provide the opportunity. The prospects of buying at or near $10 before the next bull market begins are excellent. Avoid the "what I paid for it" syndrome; what you paid is only relevant for taxes. Look at the dollars and sense of selling now, accumulating interest on the funds at today's high rates, and then *doubling* the number of ounces you own by reinvesting your sale proceeds and earnings when silver approaches $10 per ounce again. Those who have margin accounts can also save the interest expense in the interim.

Another strategy is to hedge some or all of your silver holdings in the futures market by selling contracts against physicals. You can hedge in 1,000-ounce units on the MidAmerica Commodity Exchange in Chicago, or in 5,000-ounce increments on the New York COMEX and the Chicago Board of Trade. Futures contracts have an interest expense built into the price. That's why the further out you go in time, the higher the price is in the futures market. For example, in early March, February 1982 silver futures on the Chicago Board of Trade were selling at $13.37, $1.57, or 13 percent, over the spot price of $11.80. (I selected February 1982 because it defers profits into a later year and allows adequate time for the bear market to operate. Other contracts carry a commensurate premium when adjusted for the amount of time remaining before expiration.)

If you sold futures against your physical holdings in equal amounts in early March and the price doesn't change by February 1982, you will have made a profit of $1.57 per ounce. If the price rises to $13.37 by February 1982, you will be even. If silver rises above $13.37, you will have lost the profit (above that price) that you would have made without the hedge. And if silver declines from its March price, you will have the $1.57 per ounce profit to offset your loss of equity in your present holdings.



For those of you who are determined to hold on to your silver and not to hedge any of it, I have another strategy, provided that you are also holding some gold: trade the gold for more silver. The ratio of gold's price to that of silver is (in March) about 39:1, down from its recent peak of around 42:1. I believe this ratio will shrink over time; both metals may decline, but gold will decline more than silver. If both rise, I expect silver to rise faster than gold.

Don't expect this to work on a day-to-day or even month-to-month basis, but over the course of years, this ratio should return to 20:1 and possibly all the way back to the 1980 low of 15:1. If the ratio were to return to 20:1, that would allow you to almost double your precious metal holdings without any outlay of cash. At March prices you can trade an ounce of gold for about 39 ounces of silver, and if the gold/silver ratio drops to 19.5:1, you can then trade the 39 ounces of silver for two ounces of gold. (I have omitted commissions, but they should be modest—two to four percent per transaction.)

THEN THERE'S COINS

My last, and best, suggestion about "what to do until the next bull market" is to invest in numismatic silver coins. The major advantage of numismatic US coins is that they have kept ahead of bullion during bull markets while resisting the moves on the downside.

Several years ago I constructed an index with which to monitor the general trend of prices for high-quality silver coins. It contains 12 coins representing different types (or designs) and denominations minted in the United States between 1837 and 1916. All of these coins are, and have been, relatively easy to acquire. They are in demand by collectors and dealers alike and are readily saleable.

The year 1971 was chosen as a base since it was the last year in which silver was available at $1.29 an ounce. (An earlier starting point would be even more favorable to the numismatic coins. From the 1930s to 1968, when gold and silver prices remained stable, rare coins appreciated at a faster rate than inflation. . . but that's another story.)

As the graph in the adjacent column demonstrates, numismatic silver coins have consistently out-performed silver bullion over the past 10 years. The only two exceptions to its upward path have been a six percent drop in 1976-77 and an 18 percent drop in 1980. The 1980 decline seems to have been a normal market correction that has given back the excessive, in retrospect, gains of the first half of the year. Our silver coin index has been stable since November and now stands at 59 times its 1971 price. Even at its $50 high, silver bullion peaked at only 33 times its 1971 price of $1.50.

This 10-year survey* of a diversified group of numismatic silver coins demonstrates that investment-quality coins have at least equaled—and during bull markets as much as doubled—the appreciation of gold and silver bullion. More importantly, the rare coins correct by plateauing or by declining modestly instead of the gut-wrenching sell-offs in the metals. The primary reason for this is that holders of numismatic coins generally sell in response to personal circumstances rather than market conditions. If rare coin prices seem to be moving lower or standing still, most dealers and individuals will simply hold their coins in the expectation of higher prices in the future. Their expectations have generally been met. ◻

*Of course, some coins have not done as well as our index, and some have done better. Space does not permit a discussion in this article of how to select an investment coin, but if you would like to receive my "Criteria for an Investment Coin," please send a stamped, self-addressed envelope to Numisco, Inc., 1423 West Fullerton, Chicago, IL 60614.

Walter Perschke is the president of Numisco, Inc., a rare coin brokerage firm in Chicago, and publisher of the Numisco Letter.

By Mark Hulbert

INVESTMENT ADVISORS:

When They're Hot, They're Hot, And When They're Not They're Not

JIM DINES, editor of the *Dines Letter*, is fond of saying that a trend in motion tends to remain in motion until it ends. Truer words are rarely spoken. Yet despite its being a tautology, Dines's statement contains a kernel of investment wisdom. It tells us that when in fact we have identified bona fide market trends, following them, on average, will be profitable.

The challenge is, and always has been, to discover and correctly identify such trends. The task is enormous not only because of the number of factors affecting the markets but also because of their complex interdependencies. The task is so Herculean that it is beyond the abilities of any one advisor to comprehend more than even a small fraction of the market's determinants.

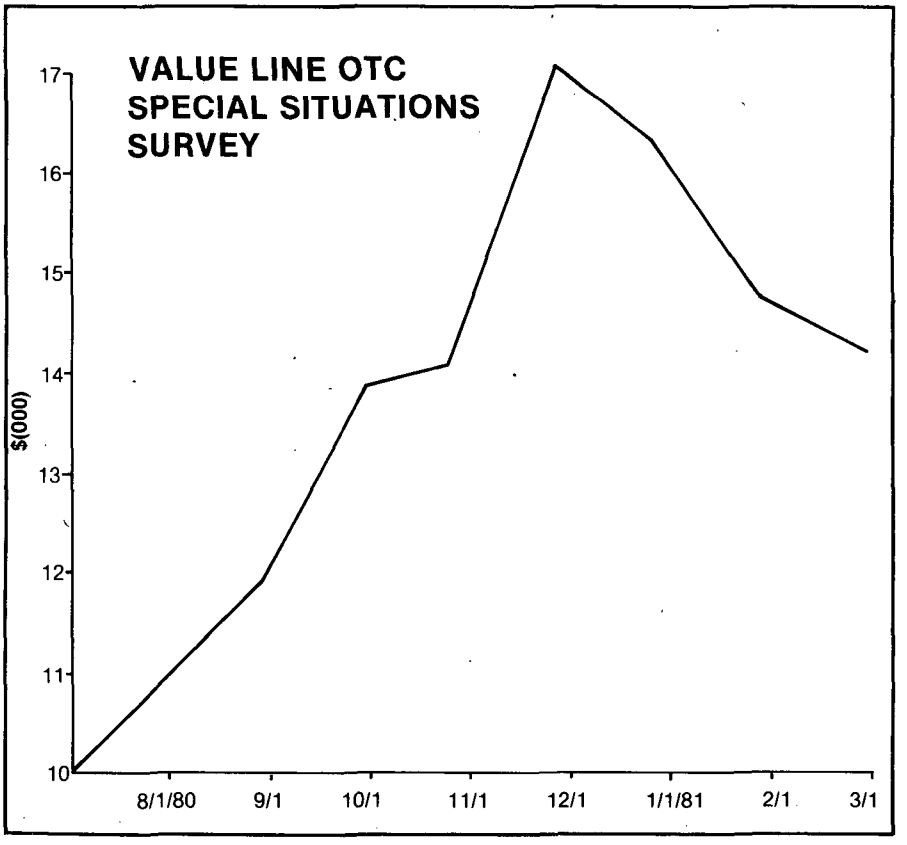
A novel approach to meeting this challenge can be built on the deceptively simple premise that many analysts are better than one. A large number of market analysts will be able to comprehend more market determinants than any one financial advisor alone. The theory we have constructed on this premise has been termed the "hot hand theory."

The reasoning behind the theory is simple. Every financial advisor has a particular area of expertise. Furthermore, the indicators and determinants over which an advisor has his expertise will at some times bear more relevance to a market's trend than at others. It thus follows that an advisor will sometimes play the lead of a much "hotter" hand than at others.

This insight would be of little value to the investor if it were completely fortuitous when an advisor's analysis is accurate and when it is not. If being hot one month bore no relationship to being hot the next, past performance would provide no guidance whatsoever to future performance. Though, as the philosopher David Hume pointed out years ago, the future might not be like the past, in fact the markets do exhibit certain regularities. Thus, one would expect the advisors' track records to exhibit similar consistent patterns, as well.

The "hot hand theory" is thus based on the conviction that the advisors' performances do not follow a "random walk." Research has indeed revealed such patterns. It is not merely luck when a Charles Stahl or a Martin Zweig correctly analyzes the market. At such times, the particular market factors they analyze are very good indicators of the market's trend—and because the underlying market conditions that they have accurately perceived do not change quickly, their analysis will, once hot, remain so for some time.

To test this theory I created a hypothetical $10,000 portfolio for each of the major investment newsletters and invested it exactly as those newsletters directed, making the recommended changes along the way. At the end of



Source for all graphs: *Hulbert Financial Digest*

each month, I computed the value of each portfolio. (My research began on July 1, 1980.)

The resultant performance ratings for each newsletter revealed certain fascinating patterns. Not only did they allow me to ascertain which advisor made the most money in any given month; they allowed me to determine whether an advisor's record of a given month was part of a consistent pattern and, if so, whether his portfolio's profitability was waxing or waning.

The accompanying graphs illustrate the value of locating a "hot hand" in the stock market. The first graph tracks the performance of Value Line's OTC Special Situations Survey (for the $10,000 portfolio created July 1, 1980).

The most striking characteristic of Value Line's performance is the consistency of its trend. Its portfolio increased in value for five consecutive months, from July to November 1980. In December it turned downward, and as of March 1 (as this article is written) it has been declining for three straight months.

Knowledge of such a trend in progress can prove very lucrative. By September 1980, for example, after following Value Line for only two months, it was clear that Value Line was playing the lead of a very hot hand. Over the two months of July and August 1980, its portfolio had appreciated some 19.2 percent, which is equivalent to an annual increase in excess of 100 percent! Acting on this information and purchasing Value Line's portfolio of recommended stocks would have resulted in profits of 43 percent over the next three months.

The performance ratings for Value Line also gave a good "sell" signal in December. Value Line did not lose its "hot hand" all at once, instead cooling gradually in December before steep declines in January and February. Those who held Value Line's portfolio through December lost a modest 4 percent and avoided the decline over the next two months of 15 percent.

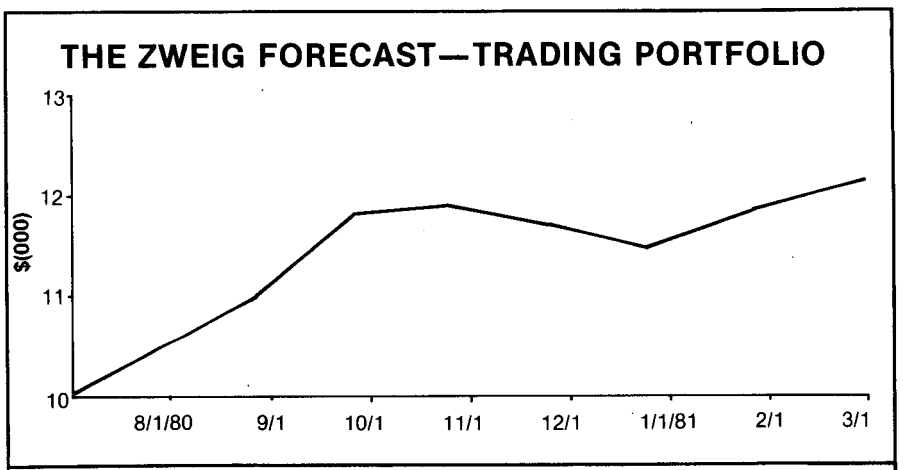
Value Line's track record is to be contrasted with the performance of Martin Zweig's portfolio (Zweig edits the *Zweig Forecast*). Zweig's performance shows clearly the phenomenon of holding a hot hand, losing it, and then regaining it. By September 1980 it was clear that his portfolio was doing very well, appreciating over the previous two months by some 11 percent. And in the month of September, it continued to perform well, gaining another 7.1 percent in value.

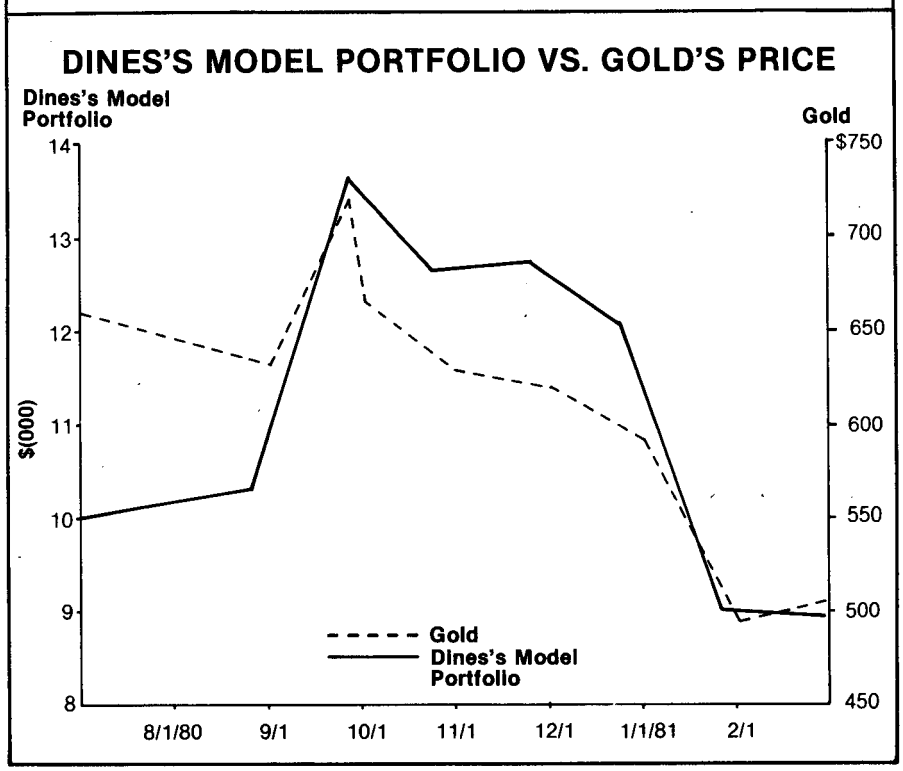
But then Zweig began to lose his hot hand. The market continued to surge ahead, yet his portfolio became stagnant. In October it gained only 1 percent in value and then lost that much in November. (The S&P 500, by means of comparison, appreciated some 7 percent in November alone.) Predictably, Zweig's portfolio lost value at an even greater rate in December, losing an additional 2 percent.

In January, however, in spite of a Granville sell signal that sent havoc through the market, Zweig's portfolio turned up again. The up trend was confirmed with another increase in February, when Zweig's recommended stocks gained an additional 2.5 percent. This run up came in spite of a falling DJIA (notice the contrast between Zweig's performance and Value Line's in the previous graph; Value Line lost 15 percent in January and February of this year). As this piece is written, March 1, it looks like Zweig's portfolio is once again following a hot hand and thus is a good bet.

The value to investors of the Performance Ratings is also illustrated by comparing the records of the various "gold bugs." This last year witnessed extreme volatility in gold and silver prices. Some newsletters were able to make money in spite of that volatility, while other newsletters were at the mercy of price fluctuations.

The accompanying graph compares the London price of gold (end of month) with the value of Jim Dines's model port-



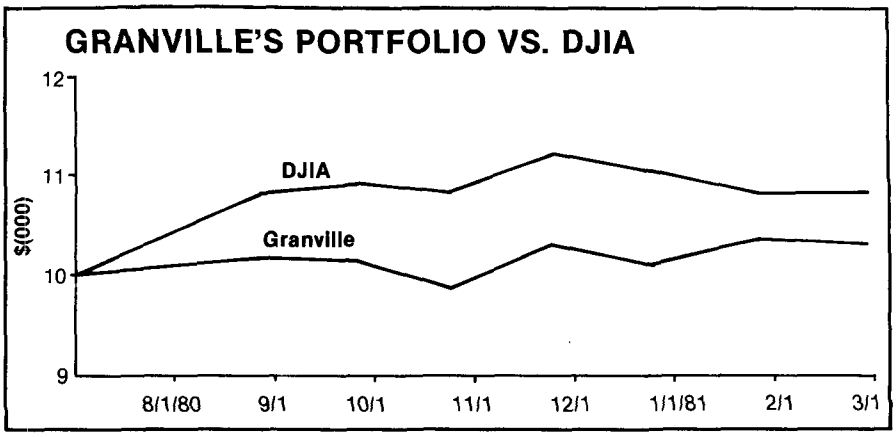


folio of gold and silver mining stocks. As you can see, Dines's portfolio has fluctuated in value in close proportion to the fluctuations in the price of gold.

To be fair, we must point out that Dines's model portfolio is not specifically created for short-term trading (Dines has held this actual portfolio from January 1975). Yet we should also point out that the greatest losses in his portfolio's value came in January and February of this year, months for which he had been forecasting sizeable increases. In any case, it is clear that his portfolio's value is fairly closely tied to fluctuations in the prices of the metals themselves and thus is not a good hedge against volatility.

This record is to be contrasted with the performance of Charles Stahl's portfolio of gold and silver (Stahl edits *Green's Commodity Market Comments*). As is clear from the graph, Stahl's portfolio has thrived both when gold and silver have been wildly fluctuating and when they have been traded in a relatively narrow range. Stahl's impressive record—the best of any of the newsletters I followed which traded gold and silver—would lead one to follow his advice when wishing to trade gold and silver.

A final illustration of the worth of the performance ratings came in evaluating the record of Joe Granville's portfolio of recommended stocks. Granville has frequently asserted that market timing is of predominant importance; "you don't need to worry too much about your individual stocks," Granville wrote in the middle of a rather buoyant stretch in the market last fall. "As long as the market is okay, the majority of stocks will be okay."



Performance records can be used to ascertain who has a hot hand and who ought to be avoided.

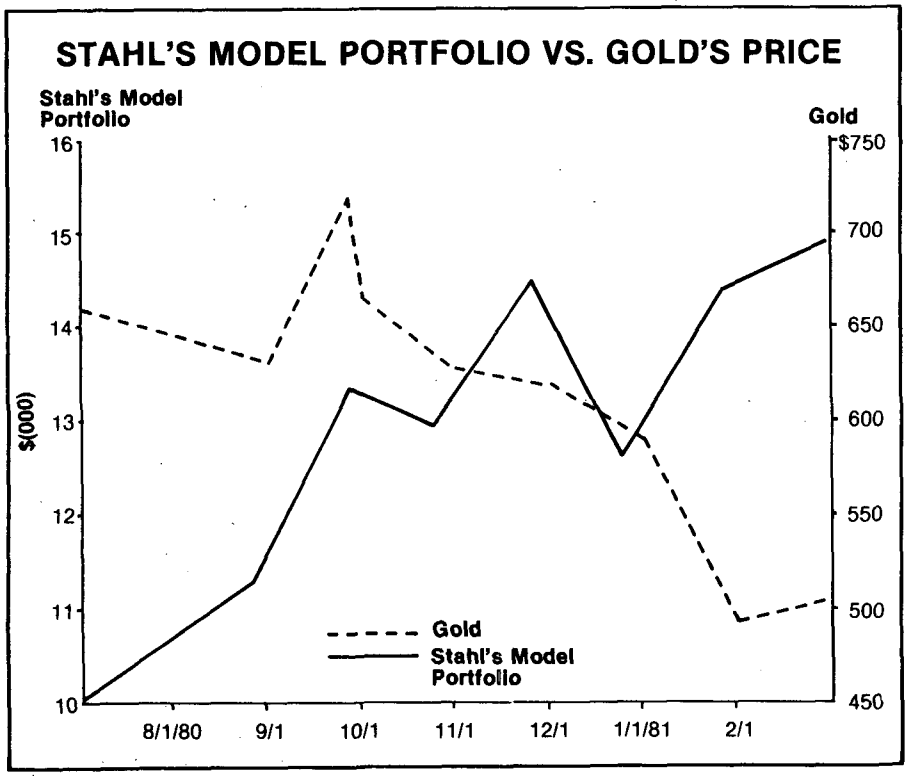
The graph of Granville's portfolio over the latter part of 1980 and early part of 1981 testifies to the fallacy of his assertion—at least in the bull market which existed then. Over the six months from July to December 1980, when Granville advised investors to be 100 percent long on the market, Granville's portfolio appreciated negligibly. By December 24, 1980, his original $10,000 stood at $10,103, or an increase of just over 1 percent. During the same period of time, the DJIA's original $10,000 on July 1 had increased to $11,041, up 10.4 percent (and the DJIA itself lagged the broader market averages). Clearly, Granville was incorrect in asserting that stock selection was not as important as market timing.

What this teaches us to do is to follow Granville's timing but not his stock selections. For example, if you had followed Granville's market calls by investing in a mutual fund indexed to the DJIA, you would have made money over the last six months of 1980 at a rate some 10 times faster than you would have by buying the stocks Granville recommended.

The performance records of the various investment newsletters can be put to profitable use. They can be used to ascertain who has a hot hand and who ought to be avoided; they can be used to determine which advisor thrives best in periods of price volatility and which do best when a clear trend has emerged; and finally, they can be used to adjudicate disputes such as the one between the relative importance of market timing and stock selection.

The potential applications of this approach are many, and this article just scratches the surface. But I am convinced that the information on the relative performance of the newsletters can be an extremely valuable tool in picking the winners and avoiding the losers, with a minimum of risk. ◻

Mark Hulbert is the editor of the Hulbert Financial Digest.



Calvert

(Continued from p. 36.)

flaws." Kinsman recommended a "liquid portfolio" and announced that hyperinflation is the most probable scenario.

R. E. McMasters's subject was to be commodity markets, and he did give them a few passing remarks. The bulk of his speech was about agriculture. Big conglomerates now control 85 percent of the agriculture dollar but practice poor agricultural techniques, according to McMasters. He predicted violent weather and drought. The American farmer is a "loan junkie" faced with rising costs, and many of them quit farming each year. "The Department of Agriculture now has one employee for each 10 farmers," said McMasters. "All rats and insects are on the rise due to federal restrictions on herbicides."

Economist Martin Anderson is Reagan's senior advisor on domestic affairs, well known for his free-market position. He jumped right in with both feet, calling Jimmy Carter a "disaster" and "not just bad luck." Martin called the election a "referendum on liberalism" and then outlined Reagan's proposed program to encourage economic expansion. The audience responded loudly to Anderson's speech. He didn't give us any investment advice—only hope.

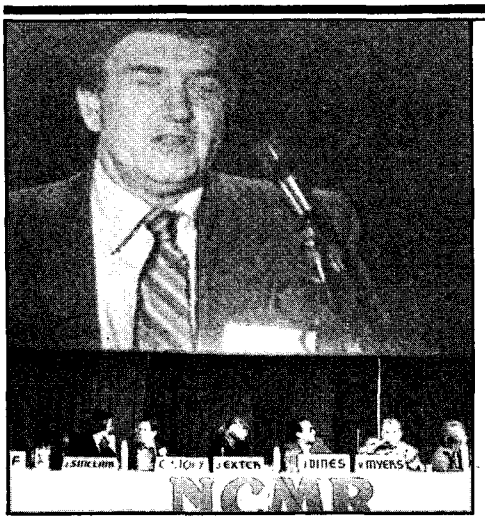
The session was closed out by one of the great eccentrics of our time, Eliot Janeway. Eliot welcomed all "fellow romantics" and then got down to business. He said he is not "infatuated" with the metals but rather likes South African gold stocks for their cash appreciation and yields. He also likes real estate, but only in large lots managed by professionals. The time to buy gold is when the stock market goes down, he said.

Janeway's manner of speaking is gruff, even harsh, but he gets his points across loud and clear. He didn't see any major changes for the '80s—just the same old problems getting worse. Eliot is a character and loves his image, but he is a professional. He suggested professional management for almost all portfolios, especially in the turbulent times ahead.

From 1:30 to 2:50 (not 3:00) we are permitted to go to lunch. Fortunately, there are only 100-150 good restaurants within walking distance, and La Boucherie on Rue Chartres is one of the best for soup and sandwiches. Try the gumbo if your gut is asbestos-lined, as mine must be.

But I digress . . . back to the auditorium and its lousy acoustics for the afternoon session.

Jesse Cornish opened the session by reading his "last will and testament." Jesse is not that old, nor was he as close to death as his speech was. He noted that we have created a "legacy of debt" to leave our heirs, and most of his time was spent repenting. He advocated gold and silver and recommended taking possession of *all* of it. Precious metals is his field; but as for wills, Jesse should get a good lawyer.



Howard Ruff threw down the first glove in the Great Debate and smartly accused his opponents of underestimating the power of government.

Frank Vogl followed Jesse and talked to us about where OPEC's billions will go. Vogl is a correspondent with the *London Times* and was a very good speaker. He pointed out that the OPEC countries lack good money management and have a constant fear of confiscation, so he predicted they will remain flexible. With an investment portfolio that will approach $800 billion by 1985, it will definitely pay to keep an eye on where that money is going. Remember when we were assured by the media that the Arabs were going to buy up America, lock and stock (they already have the barrels)? Well, it turned out to be less than .01 percent, and we haven't heard from Walter Cronkite since. Vogl was good!

The next speaker was Louis Rukeyser, and he stole the show. His speech was alive with biting satire and beautifully droll humor. His grammar was perfect, as was his diction; the man is a master speaker and obviously fully prepared. He was the highlight of the day!

His pet peeve, he said, is economic education. He lambasted public education for its lack of economic education, but he really saved his best shots for the media. He went down his list of 10 points—budget, taxes, labor, business, energy, foreign policy, etc.—explaining one by one what it will take to recapture our free-market economy.

The release from Rukeyser left us exhausted, and ahead was still the big cocktail party, the Presidential Analysts Panel, *and* the Great Debate. The cocktail party was a true extravaganza! There was a New Orleans Room, a Houston Room, a Mexico Room, and a South Pacific Room with foods to match. Being a good reporter, I tried to cover every room. Heartburn set in between Mexico and the South Seas, but I managed to survive the trip. At 9:00 P.M. we gathered again.

Louis Rukeyser was the chair for both the panel and the debate. It looked like the Presidential Panel was supposed to be a warm-up for the big finale. There were but two panelists: Jesse Helms and Bert Dohmen-Ramirez.

Jesse Helms came on strong with his "good ol' boy" act, but you could quickly tell that Jesse "ain't as dumb as he looks." Helms toes a pretty straight line in his economics; even Milton Friedman hasn't swayed him from the gold standard. He ripped the TV pundits and the mediocrity of our schools for confusing the issues of our times. He recalled that during Jackson's time they paid off the national debt . . . and then had a party. Let's "have another party!" he cried.

Helms's opposition, Bert Dohmen-Ramirez, took his best shot early. "They rail about patriotism, family, and morality, but they don't address the real problems," opened Bert. "*Excessive debt inflation* is the problem, and it will be 25 percent next year, and Reagan can't help it," he said. And he worries about the Trilateralists.

Jesse stole the show and most of Bert's time with his wit and humor, but Bert made them realize that it was no time to relax and called Reagan the "great right hope." A short "stand up and stretch" was ordered by Mr. Rukeyser as chairs were rearranged for the "Great Debate."

The moment arrived, and the debaters were introduced: Dines, Exter, and Myers on the Depression/Doom and Gloom team; and Ruff, Sinclair, and Story on the Up, Up, and Away Inflation team. John Exter was first, to give the debate a gentlemanly tone to follow. He pointed out that "the debt" is larger than just the federal debt and suggested that his opponents overestimate the power of government.

Howard Ruff threw down the first glove and smartly accused his opponents of *under*estimating the power of government. He agreed that we will probably have a "scary brush" with deflation in the next year or two but that government has the ability to inflate "beyond our dreams." The "scary brush" will give government the "will to inflate" and when it does, Ruff said, "You ain't seen nothin' yet."

James Dines, character that he is, picked up the gauntlet and hurled it back—"with style," he would add. "The deflation started in '68," he shouted. (They must not have read Dines's book, I thought.) "We are *in* a money crisis," said Dines, "and the printing presses can't do a thing about it."

Up stepped cool, suave Jim Sinclair, who coolly and suavely defined the depression team out of existence. And since inflation is "sociopolitical in relationship but political in effect," the government will react. Jim confidently returned to his seat.

Verne Myers told a Texas joke to clear the cobwebs and set up his touché. "This is not currency inflation we are talking about, but debt inflation," said Verne. "The government just puts zeros in its books, and the figures are going to start disappearing." The panic for cash, of all types, will bring the house down regardless of the printing presses. Verne rested the case.

Chris Story gave us mechanics on how the government could inflate and why. The new banking laws he mentioned will make it possible, and the default of the Third World countries will make it necessary. Being British, he *strode* confidently to his seat.

Each was permitted a parting shot, and Exter tried valiantly to restore order and reason and remind us of "bank holidays." Ruff unexpectedly agreed and then said, "They'll use the holidays to print the money." Dines warned them that they were *really* going to be "surprised!" Sinclair assured us the debt could be "monetized." Myers rose to tell us that the old crowd in Washington was gone now, and the new gang won't resort to such things. Story reminded us that the rise is "continuous,. . .inexorable."

Seems like deflation is in a depression these days, or is it the other way around? Oh well, the Great Debate was over, and all balloons had been pricked. We went to bed confident there would be no breadlines in front of the hotel to hinder the morning session.

Saturday's finale was none other than "superbear" James Dines. Egotistical, flamboyant, eccentric—all those descriptions fit Jim Dines. He was a bear at the first convention, and he'll be a bear at the next one. "Buy gold anytime below 600," he advised. He was bearish on currencies, said oil and real estate will crash, and bonds are "out."

After more gloomy forecasts, Dines gave us his 10-point plan for changing the course of America. He began with the necessary gold standard and continued on to call for a rebirth of the American revolution. Jim received a standing ovation. Although the inflationists were clearly in the majority, Dines argued his case very well. It's difficult not to hedge your bets after listening to him.

And so it goes, right up to the final words from the final speaker. Three thousand some people, as confused as ever, shuffle toward the doors. A multi-day monetary madness marathon was over. ◻

Jeff Calvert is part-owner of three western wear retail stores in Texas. He formerly taught high school and has traveled extensively.

Browne & Coxon

(Continued from p. 43.)

how many dollars would you have? Only a rough figure is necessary. $5,000? $40,000? $200,000? $1,000,000? $50,000,000? Without spending more than a couple of minutes, calculate your approximate net worth (your assets minus your liabilities).

The next step is to imagine that you've sold all your present investments, and the proceeds are now sitting in dollars in a bank—waiting to be invested. Determine how much you want to allot to the Variable Portfolio. How much, if anything, are you willing to risk on your judgment of short-term trends? Whatever it is, set aside a budget for it (with no concern now for particular investments), and subtract that amount from your net worth. The remaining money is for the Permanent Portfolio.

You have a pile of dollars available for the Permanent Portfolio. How will you invest it? With the money in cash, nothing can stop you from achieving the combination of safety and opportunity you want. You don't have to wait for any investments to recoup their losses; there are no unrealized capital gains to discourage you from selling something; you have no investments on which you've staked your reputation or self-esteem; you have nothing to consider except how best to invest a pile of cash.

What would you buy? Gold, silver, stocks, foreign currencies, oil leases, commodities, real estate, T-bills, bonds, annuities, second mortgages, debentures, convertible bonds, rare art, fried-oyster franchises? What would you buy? You have the whole world to choose from.

Make a list of the investments you'd purchase with that imaginary pile of cash. And next to each investment, write the percentage of your Permanent Portfolio you want it to have.

In making these choices, what you already own isn't important. How much income you need from your portfolio isn't a consideration. What friends, relatives, and investment advisors are buying isn't important. You're making a fresh start, and the direction you take is up to you alone. There is only one consideration: If you had the money in cash right now, with no constraints on your investment choices, what combination of investments would make you feel most comfortable?

In no more than five minutes, you'll

have the first sketch of your new portfolio. Then you might make some changes. When no more changes seem possible, put the sheet of paper aside. Take another look at it tomorrow. You'll probably make one or two more changes. And perhaps again the next day. After a few days, no more changes will seem possible or necessary. You'll have the ideal portfolio.

The next step is to make a list of what you own now and its present value. Then sell the amount by which any item exceeds the percentage budget you gave it in the new portfolio. With the proceeds of these sales, buy what's necessary to have enough of each item you listed in the ideal portfolio.

Of course, the transition from what you have now to what you want may not be simple. You may have investments that can't be sold easily, and you may be reluctant to pay capital-gain taxes on investments you no longer need. Many investors will end up with a compromise. But you won't get close to your ideal unless you begin by defining it—without worrying about the hurdles.

It may seem that our approach is too simple; your present assets may be spread over a multitude of investments and among a number of pockets. If there seem to be too many complications to handle, it's only because you're concentrating on where you are now, not on where you want to be.

That's why you must start with the imaginary pile of cash. Only then will you be able to look past the results of the piecemeal decisions you may have made over many years.

You *do* have a fresh start; you can make it any time you want by saying, "Sell." Your portfolio can be as simple or as complicated as you want it to be—but the choice shouldn't be dictated by what you happen to have now.

Once you have some figures on paper, ideas for changes will come to you faster and faster. You'll remember things that are important to you, and some of the investments that once seemed necessary may no longer be so attractive. Change the figures again—and again—until you've found the arrangement you can live with, until the portfolio appears to have been modeled on your view of the future and with your concern for safety and opportunity. Eventually, you'll have the ideal portfolio.

It isn't difficult to create the right portfolio for yourself. But it won't be the right portfolio unless *you* make the choices. No investment advisor nor anyone else (even if he's sure he knows what's best) will share your losses with you. *You* have to make the decisions because *you* will live with the consequences. ◻

Harry Browne is the author of numerous bestselling financial books. Terry Coxon is a financial advisor. This article is excerpted from their recently published book, Inflation-Proofing Your Investments, *by permission of the authors and publisher.*

Sexauer

(Continued from p. 69.)

pineapple plantation that will eventually supplant its Hawaiian production. The rapid maturity (seven to eight years) of softwood trees, one-third that for most US production, has created new interest in forestry, especially attractive with special reforestation tax incentives. The completed Arenal hydroelectric project has opened up the possibility of cotton production in the relatively dry northern Guanacaste peninsula. All of these products will save dollars on imports and ultimately provide export earnings.

Compared to Mexico, tourism is still in its early-development period. The vast beach areas are only now being accumulated by professional developers. Tourist projects on an international scale are still in the future. New North American air connections, both scheduled and chartered, are expected to rapidly expand the tourist market. With off-season rainy months corresponding to the US summer, Costa Rica lends itself to being marketed as a vacation spot for those living in America's hot and humid southern region, as most mornings are cool and clear and both golf and tennis can be enjoyed on an almost daily basis.

Under all the major political factions in the postrevolutionary period, the government has traditionally welcomed foreign investment. Investments geared to export industries in nontraditional products receive special benefits in the form of CATs (Certificado de Abono Tributario), which grant up to 15 percent of the FOB value of exports in certificates usable for any tax obligation and marketable on the Bolsa to those owing taxes. In addition, there is special tax treatment—exoneration of import duties and taxes—for in-bond assembly or drawback operations. Costa Rica's lingerie and some of its electronic assembly operations function under these favorable terms, where skilled, relatively low-cost labor is an essential ingredient in the product's commercial success.

The Export and Investment Promotion Center is a government-sponsored promotional institute whose main function is to give technical assistance to investors, exporters, and foreign importers dealing in Costa Rican products. It conducts studies on potential investments in all areas of the economy, supplying information on facilities, regulations, and financing of these projects and offering procedural advice on the installation of new "drawback" industries.

Risk, of course, exists in all investments. Our perception of risk is usually magnified in all parts of the world by a press that is too often oriented toward sensationalism or liberal advocacy. Those willing to look beyond the scare headlines emanating from Central America today will find Costa Rica different. Whether you are looking for international diversification, a money and tax haven, an alternate lifestyle, or simply a pleasant vacation, this Switzerland of the Americas merits your consideration. ◻

Charles Sexauer is a director and international vice-president of Bona International, S. A., a foreign broker-dealer based in Costa Rica. He wishes to acknowledge assistance with this article from Robert Wasson of American Realty and Robert J. Adler of the Money Doctor.

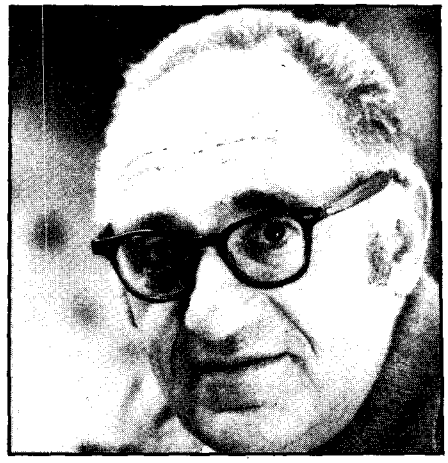
DO YOU WANT TO KNOW MORE?

COSTA RICA—INVESTORS GUIDE
American Chamber of Commerce of Costa Rica, P.O. Box 4946, San Jose, Costa Rica. Approximately $4.00/issue.

FACTS AND FIGURES OF COSTA RICA
Export and Investment Promotion Center, P.O. Box 5418, San Jose, Costa Rica. Approximately $5.00/issue.

The Reagan Fraud

viewpoint



Murray N. Rothbard

In 1960 and again in 1968, several friends of mine who were highly placed in the Nixon campaign told me, "Believe me, Dick Nixon is a libertarian." (Some of the more optimistic even said, "Dick is an anarchist.") "He told me so himself," they'd say. "He has to play a little politics now, but when he gets into office, then you'll see." We saw.

Now the old nonsense is back in force. Libertarians, hard-money buffs, economic conservatives, are hailing President Reagan for his "historic," "revolutionary" cuts in taxes and in the budget and for his full-scale commitment to deregulation and the free-market economy. Liberals, too, are joining the chorus—from the other direction, howling about the millions of poor who will be thrown into the streets and about Reagan taking us back into the 19th century.

All of this is hooey and hokum. There is no "Reagan New Deal," and nothing either historic or revolutionary is going on. The fact that a small handful of libertarians or quasi-libertarians have gotten middle-level jobs in the administration means nothing except that a different cast of characters is fattening at the public trough and that their post-Washington careers will receive a substantial financial boost. The major point is that nothing is really going on. There are no budget cuts; there is no tax cut. The government deficit continues to be huge; the disastrous inflationary monetary policy continues in place.

Take the extraordinarily hyped "budget cuts." When President Eisenhower took office, he was justly denounced by the quasi-libertarian "Old Right" of the day for consolidating and cementing the New Deal instead of abolishing it. And yet, Eisenhower, in his first fiscal year in office, cut the budget—*really cut* it that is, by 8.7 percent. Not fantastic, surely, but at least a modest first step toward rolling back the federal government. Reagan, on the other hand, with enormous fanfare about a "revolution" in the direction of minimal government, is proposing to *increase* the federal budget next year by 6.1 percent. This is a cut?

The "cut" is only in the rate of *increase* of the federal budget proposed by President Carter. This is *not* in any sense a genuine budget cut. Furthermore, even the handful of programs that are *really* cut are not eliminated; not a single agency is abolished, not even the Council on Wage and Price Stability.

The same story is true of taxes and deregulation. The piddling income tax cuts will be more than offset by the programmed Social Security tax increase and the "bracket creep" caused by inflation. The tax on interest and dividends stays at the disastrous 70 percent top, and the capital gains and corporate income taxes are not touched. The pledge to index income taxes to eliminate bracket creep is not fulfilled, and the grotesque "windfall profits" tax on crude oil—really a graduated excise tax on crude oil production—continues in force because, as the Reagan people unabashedly admit, "we need the money."

The returns on deregulation are not all in yet, but the picture there looks the same. The much-touted Reagan "deregulation" order merely *suspends* (not abolishes) *increases* in regulation programmed by the Carter administration. Their fate is then to be decided by the now fashionable spurious "cost-benefit" analysis. The best guess is that, as in the case of spending and taxes, there will only be a modest cut *in the rate of increase* of government regulation of industry.

Why then the media hoopla about the "historic" and "revolutionary" changes being proposed by Reagan? Conservatives and liberals both have their own reasons for enormously magnifying the importance of the event.

Conservatives want to help the Reagan administration strategy of turning inflation around by pure hype and bombast. Previous administrations have tried to reverse accelerating inflationary expectations either by wage-price controls or by "jawboning": trying to talk business and unions into lowering prices and wages. The strategy of the Reagan team is to try just another form of jawboning: by making a big fuss and fury about the budget, taxes. etc., it is trying to con the public and the market into thinking a lot of great things are going on. The Reagan administration is trying to reverse inflationary expectations and build public confidence in the dollar by trickery—by mirrors rather than solid performance.

For a short while the con will work, aided and abetted by the usual honeymoon that an ever-naive public grants to each new miracle-working president. But soon disillusionment will set in, the public and the market will realize there is nothing there, and inflation will accelerate again. The Reagan honeymoon will be over with a bang.

The liberals' collaboration in the fraud is more far-sighted. They will aid Reagan in trying to con the public because in a year or two, when everyone realizes that the Reagan program isn't working, everyone will give up on the free market, drastic budget and tax cuts, and hard money and minimal government. The free market and hard money will be discredited forever, even though it was tried only in rhetoric.

And that is precisely the danger with the Reagan program. Like Mrs. Thatcher in England, the president is giving us all the fiery and hard-hitting economic libertarian rhetoric but none of the substance. Since, after a brief honeymoon, only solid reality will work, the Reagan program faces inevitable collapse. All those who care about the free market, hard money, and minimal government must begin to act *now* to prevent this. The Reagan program must be denounced fiercely and uncompromisingly as a fraud and a deception. Otherwise, we all might as well pack it in for another century.

Murray Rothbard is a professor of economics at Brooklyn Polytechnic Institute of New York and the author of numerous articles and books on economics, history, and the libertarian movement.

money

Investing in Hong Kong

By Steve Beckner

HONG KONG.—This city-state at Communist China's doorstep didn't get to be one of the world's fastest-growing financial centers by accident. Everyone from the humblest mainland refugee to the world's largest companies and banks has been attracted to this British island colony because of its investment opportunities.

Hong Kong's reputation as an outpost of laissez-faire is no longer fully deserved, as the government insinuates itself more and more into the economy. But the markets here are still far freer than almost anywhere else in the world. What's more, its lack of trade restrictions and foreign exchange controls and its low personal taxes, taken together with its good communications, energetic outlook, and excellent harbor, make Hong Kong a natural magnet for commerce, finance, and investment.

As the world grows smaller and investing becomes, by necessity, less provincial, Hong Kong has a lot to offer the internationally oriented American investor. Whether you're interested in gold, agricultural commodity futures, foreign securities, gemstones, real estate, or just a high-yielding foreign bank account, Hong Kong can fill the bill. It has 115 banks, scores of "finance companies," four stock exchanges, two gold exchanges, futures contracts in three other commodities (cotton, sugar, and soybeans), and, starting soon, a diamond exchange.

Though gold is in the doldrums at the moment, it is in the precious metals that Hong Kong has most clearly made its mark, becoming the world's third most important gold-trading center. And for good reason. For one thing, the Chinese have always had a healthy respect for the yellow metal, as indicated by the fact that the Hong Kong Gold and Silver Exchange Society has been trading gold taels (gold wafers of 1.193 ounces) for 70 years.

More important is Hong Kong's fortuitous spot on the world's time clock. Aside from Sydney, Australia, whose market is strictly local, no market begins trading earlier than Hong Kong's. When it's 10:00 A.M. in Hong Kong, it's 3:00 A.M. in London and 10:00 P.M. in New York.

But that's not all. In addition to the traditional ethnic "society," where 5-tael bars are traded in terms of Hong Kong dollars, there are now the westernized gold futures contracts of the Hong Kong Commodity Exchange. In addition, Hong Kong's brokers have invented contracts based on both the New York Comex and the London Metal Exchange. These "loco-Comex" and "loco-London" contracts can be traded for a slight premium after those two foreign exchanges are closed or before they open.

None of these markets have limit price moves. If a trader gets locked in to a short or long position on New York because the price has moved up or down "the limit," he can almost always take an offsetting position in Hong Kong, where trading takes place virtually around the clock. Finally, taxes on profits hit a maximum of 15 percent, at least as far as the Hong Kong government is concerned.

Hong Kong's stock exchanges, which are soon to merge, under a government scheme, into one large exchange, have been a rollercoaster of excitement. Anyone who followed the market, picked out a half-dozen of the leading stocks, bought in at a low point, and then sold when they again reached the top of their trading range could have done very well in the past few months.

The Hang Seng Index (the Hong Kong equivalent of the Dow Jones) has soared over the past few years, reaching a peak of around 1600. Recently, in a matter of a few days, it rose 130 points and then fell back 85 points.

Most of the major US brokers have offices in Hong Kong, as do most of the rest of the world's leading brokers. So taking a position is no problem.

You probably wouldn't want to do so through a US broker, but trading through a nominee is a common and accepted practice. The adventurous American can easily establish a company in Hong Kong or have someone act as his nominee and trade shares in Hong Kong anonymously through a broker, says Tom O'Donnel, partner in First Financial Services, a firm that helps foreigners place funds in Asia.

Doing that would probably entail having a bank account in Hong Kong to avoid problems with transferring funds. Even if you're not interested in that gambit, though, there are other advantages to having a bank account in Hong Kong. There are limitations, too. Basically, only accounts in US dollars and Hong Kong dollars (roughly five Hong Kong per one US dollar) are available. And banks are restricted, as in the United States, from performing brokerage services themselves—unlike, say, Swiss banks.

It is often possible, however, to earn higher rates of interest in Hong Kong. There are no Regulation Q interest ceilings or Fed reserve requirements. So even a simple "statement account," a kind of interest-paying checking account like the new NOW accounts, outstrips the allowable earnings on most US certificates of deposit.

And the Hong Kong certificates of deposit are even more competitive, fully in line with Eurodollar rates. The "finance companies," or "deposit-taking companies," which are barred from offering checking accounts, pay even more than the banks. To take a recent example, while the three-month Eurocurrency deposit rate was 16 15/16, the Hong Kong office of Chase Manhattan was paying, for much smaller deposits, 15.375 percent; Bancom International, Ltd., a finance company, was paying a full 17 percent; and another finance company, Asia Alliance, was paying 17.75 percent. But, advises O'Donnel, "You have to look at the strength of the company. Some companies pay extremely high rates and I wouldn't touch them with a 10-foot pole." He suggests using foreign banks' branches in Hong Kong, such as the Bank of Nova Scotia or Banc Nacional du Paris.

The Hong Kong government has a 15 percent withholding tax on interest, but it does not apply to US dollar accounts. Any US citizen's foreign bank account is supposed to be reported to the US Treasury, but "if you don't want to report the interest, the Hong Kong banks won't," notes O'Donnell.

Do you have an investment question? Mr. Beckner may have the answer. Send your query along to REASON Money, Box 40105, Santa Barbara, CA 93103.

(A limited number of reader questions can be answered in print; personal replies cannot be made.)

In July, the Hong Kong Diamond Exchange will take its place alongside the colony's other markets and services. Already a major diamond-trading center, Hong Kong can be expected to grow in status with this new exchange.

Although the exchange will not be open to public participation, it will be simple enough for investors to broker their stones on the exchange via a diamond dealer. Diamond dealers and principals in the forthcoming exchange claim that Hong Kong is a much cheaper place to buy diamonds. Not only are there no import or export duties, they point out, but there is no sales tax and a lower rate of income taxes upon resale.

Furthermore, according to exchange president Warren Leung, Hong Kong dealers (typically stores that sell unset investment-grade stones along with jewelry) operate on smaller profit margins. Leung estimates that the typical dealer's profit margin would be "three percent, more or less. In other countries I don't think they trade on such narrow margins." Even after the retailer tacks on his profit, Leung estimates that the final buyer would pay "below 10 percent above the manufacturing (cutting) cost."

Such claims should be taken with a grain of salt, but they are worth further checking out, especially if you plan to make a trip to this fascinating, curiously beautiful city.

Steve Beckner is a free-lance financial writer, the editor of Deaknews, *and the author of* The Hard Money Book.

health & welfare

Getting Rid of Phobias for Good

By Sandy Shaw and Durk Pearson

Phobias are all too common. Surveys indicate that over half the population will admit to having a phobia, which probably means that most people have them. In many cases, people can probably live with their phobias without suffering excessively. They may be inconvenient and even embarrassing but are not necessarily a serious problem. However, for the businessman who wants to fly but has a flying phobia or the professional who wants to lecture but has a public-speaking phobia, the consequences of their phobias are debilitating, expensive, and can decrease self-esteem. Although behavioral therapy (gradual desensitization) is sometimes an effective way to get over a phobia, this method consumes a lot of time because the phobic fear has to be alleviated a tiny step at a time.

Now there is a new way of very rapidly relieving the acute panic feelings associated with phobias as well as the unpleasant self-perception of being a coward. This approach uses no tranquilizers or sedatives, yet it enables one to quickly, relatively painlessly, and permanently unlearn a terrifying phobia. This new method of treatment, which has been used in many successful clinical studies, is based upon recent advances in understanding underlying psychobiochemistry of phobias.

When a person enters a phobic situation, his body responds by releasing adrenalin, while his brain releases its own version of adrenalin, noradrenaline. As a result, the body goes into a classic "fight or flight" state in which the blood is diverted into the muscles and, in the brain, diverted out of the higher cognitive centers in the cerebral cortex and into the primitive, so-called reptile, brain. This type of psychobiochemical response is a good evolutionary adaptation, well suited to a situation such as a saber tooth tiger suddenly leaping at you from behind a bush. But it just doesn't work well when this archaic mechanism is triggered when you are trying to make a speech or learn how to deal with your phobic fears. Your learning capacity is crippled when your thinking brain is shut down by your reptile brain. Phobias do not go away by themselves.

Adrenalin and noradrenalin are known to interact with cell receptors called the alpha and beta adrenergic receptors. Drugs that specifically block the beta receptors, so that adrenalin or noradrenalin cannot attach themselves to these receptors, have been used to enable people to get over their phobias with remarkable ease and speed. Three beta blockers are currently available in this country, although there are several available in some European countries. *Propranolol* is an FDA-approved beta blocker for control of high blood pressure, a condition for which it is very effective.

In an English study using a related European high blood pressure control medication called *oxprenolol*, violin players who had experienced preconcert anxiety used oxprenolol and experienced much less anxiety and were judged by an independent panel of musical experts to have performed better (because their fingers shook less!). In another study, students suffering from chronic examination phobia who were treated with the beta blocker oxprenolol and then given an exam had much less anxiety, with no decrement in their intellectual performance.

One of the authors (Sandy) has used propranolol to overcome a public-speaking phobia of many years' duration. Sandy was so afraid of addressing strangers a few years ago that, even with the psychological isolation provided by a telephone, she found it very difficult to make even the most routine business call. This severe phobia even extended to trivial matters, such as a telephone call to an electronics store to ask whether they stocked a certain part. In spite of her wide knowledge, public speaking was utterly out of the question.

When Sandy took 30 to 40 milligrams of propranolol about an hour before a public address, she found that it prevented the bodily symptoms of anxiety (hands shaking, sweating, knots in stomach, etc.) and, of far greater significance, prevented her mind from "going blank." There was neither dulling of the intellect nor difficulty in the physical delivery of lectures. Outside of the phobic situation, she could subjectively sense no effect of the drug whatsoever. Best of all, Sandy found that after she had used propranolol to give two or three successful lectures, she no longer had to use the drug.

Sandy had two other phobias which promptly and permanently succumbed to propranolol. The first was a fear of flying whose symptoms had previously been temporarily mitigated through the use of meprobamate or Valium R. Each flight required the same tranquilization. A few flights taken with propranolol instead, and the phobia was eliminated, apparently forever.

Sandy also had a severe roller coaster phobia. Attempting to ride the repeatedly upside-down, looping ride of the Knott's Berry Farm Corkscrew roller

coaster was a substantial goal. Due to phobic projections of an expected terrifying experience and because a degree of sedation would not interfere seriously with the enjoyment of an amusement park, Sandy used propranolol in conjunction with a European anticholinergic drug called benactyzine. This latter substance impaired vivid phobic memories and projections, while the propranolol disconnected the primitive "fight or flight" system. Sandy was actually enjoying the ride by the time the roller coaster swooped down the first hill—and she was being filmed at the same time for an appearance in our Disney-produced science-adventure-educational film, "Black Holes, Monsters That Eat Space and Time"!

When your thinking brain is not shut down, you can learn how to benefit from your experiences. Propranolol does not eliminate the need for courage to enter a phobic situation, but it blocks the "fight or flight" syndrome that normally prevents the phobic individual from learning to overcome these fears.

Your physician is exceptionally well informed if he has heard of this use of propranolol and other beta blockers (approved by the FDA only for the control of high blood pressure). FDA regulations make it a criminal offense for a drug manufacturer to report to doctors on drug uses not specifically approved by the FDA, no matter how scientifically justified, even if the drug has already been approved for some other purpose. The cost of FDA approval for additional drug uses is usually tens of millions of dollars, and the regulatory delay is generally several years. Since the patents on propranolol have expired, it is in no one's economic interest to foot this huge bill. Although very safe (doses used a few times for phobias are typically about as much as those used a few times each and every day for hypertension) and remarkably effective, propranolol will probably never receive FDA approval for the treatment of phobias.

It is perfectly legal, however, for your physician to prescribe propranolol for any purpose whatsoever, including the treatment and cure of phobias. Before he is willing to explore this new use for an old drug, you will probably have to give him copies of the relevant scientific literature. *A Therapeutic Approach to the Psyche via the Beta-adrenergic System*, edited by Kielholz, contains a number of original papers presented at a 1977 symposium; the book is available from University Park Press, 233 East Redwood St., Baltimore, MD 21202.

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Durk Pearson and Sandy Shaw are consulting scientists, authors, and TV personalities.

spotlight

Internal Revenue Reformers

By Patrick Cox

In the fall of 1969 the Internal Revenue Service initiated an audit of Phil Long. In March 1970 the IRS notified him of 33 claims against him for a total of $38,000. An independent auditor told Phil the claims were the most ridiculous he had seen in 40 years of accounting, so he and the woman shortly to become Susan Long decided to take on the country's tax bureaucracy.

They immediately placed the first of 14 ads in the *Washington Post* detailing their experiences with the government. They made an administrative request under the Freedom of Information Act (FOIA) for the handbook used by IRS agents. Before they ever obtained it, Phil Long had won his own tax case, even receiving a refund of $146. But the Longs had started down a road that neither one of them ever meant to travel. They pursued the FOIA request and took up new battles, and now they have become celebrities for their attempts to publicize the workings of the largest financial agency in the country.

Their latest effort is to acquire 58 computer tapes of data generated under the IRS's Taxpayer Compliance Measurement Program (TCMP), a comprehensive study of who pays what in American society. The data collection has been going on since 1962 and, according to the Longs, has cost at least $100-$150 million. For some reason, the IRS does not want the TCMP information made public. As a matter of fact, the agency has fought the Longs about practically every bit of information they have tried to bring into the light of day.

The Longs first made an FOIA request for the TCMP information, including tapes, in 1970, only to find out that Congress itself had been refused the data. After five years of struggle and delays the Longs filed suit against the IRS in the Seattle Federal Court, near their home in Bellevue. The IRS told the court that it would be impossible to supply the tapes because taxpayers' Social Security numbers would be released in the process, violating legal injunctions against the invasion of privacy. Furthermore, they told the court, the cost of deleting the identifiers would overburden the IRS.

The Seattle Times

Susan and Phil Long

The court decided that the Longs had a right to some IRS statistics based on the tapes but not to the tapes themselves. They appealed to the Ninth Circuit Court. In the meantime, they unearthed evidence not only that the tapes they sought were financially feasible to generate but that they had already been produced for the Commerce Department's Bureau of Economic Analysis. In fact, they were being prepared while the IRS was lying about the impossibility of it in court. The Longs changed their tack and filed another suit in federal court for the tapes already provided to the BEA.

In 1980 the court ruled in the Longs' favor on the BEA case. The government filed for reconsideration. The privacy argument no longer workable, the IRS came up with a new reason for not releas-

ing the tapes: if surrendered, the tapes would provide the code that the IRS uses to select tax returns for audit. When the court refused to reconsider, the IRS appealed to the Supreme Court, which denied a hearing.

On December 31, 1980, the Longs obtained a court order that the tapes be turned over to them. This time the BEA asked for a reconsideration, arguing that the tapes would permit the public to break the IRS audit code. The court rejected the government's arguments as late and frivolous.

When a friend of the Longs' went to the BEA in Washington, D.C., in February 1981 to pick up the tapes, he was, according to Sue Long, screamed at and thrown out of the building. After the federal court granted the BEA a temporary stay of its order, the Ninth Circuit Court dissolved the stay, the Supreme Court issued and then dissolved a stay, and in March 1981 Sue Long presented the court order to the US marshall and asked that the documents be seized. The marshall's office refused, saying that they hadn't seen anything like this since Watergate.

The Supreme Court scratched its collective head and issued another stay, remanding the case to the Ninth Circuit Court. So far the Longs' attorneys—Rendich, Stobaugh, and Strong—have put in close to $200,000 worth of work without compensation.

What kind of people would take on the IRS like this, and why would they do it? The why is hard for the Longs to answer. Phil says that it was initially "self-defense" but after that it was just continuing with what had been started. Sue says that it was "ignorance" that kept them going even though they had won their original case. "I didn't know what we were getting into." Today, the two are considered by many the country's foremost experts on IRS operations.

Phil, 64, has been in business for most of his life. Sue, 34, was once a community organizer and now holds a Ph.D. in sociology. "Phil gets the Republican literature," according to his wife, but "the only time I ever voted Republican is when he ran for lieutenant Governor in Washington." Mr. Long spent $1,000 and took 400,000 votes in his race against a Democratic fixture in Washington, a contest he entered in order to beef up his credentials in his fight to open up the IRS. Both of the Longs have testified before Congress on a number of IRS-related issues. They were involved in legislative battles to do away with quotas for IRS agents and to reform the use of "jeopardy assessments."

In his own $38,000 suit, Phil Long was told by an IRS man when he asked to have his case taken to court, "Do you know what the jeopardy assessment is? Well you just better find out!" The Longs found out that it is the procedure whereby the IRS confiscates a person's property after only a 24-hour notice to pay up on IRS claims. The reform that the Longs worked for has brought the number of jeopardy assessments from over 1,000 a year to about 100. Phil Long told REASON that "they were applying it like a club; it was very vicious."

The Longs have uncovered a plethora of astounding facts about the IRS. They obtained a 110-page manual for local agents on dealing with the media (one technique: lying about the legal ramifications of running a tax-related story). They have a confidential IRS memorandum that instructs agents within the Congressional Liaison Service to take letters of complaint from the legislators' constituents under the guise of answering the letters, so there will be no permanent record of the complaint. The Longs have lobbied on their own to get the legislators to pass on only duplicates of complaints. Sue Long, who has served on the Washington State ACLU board, says: "There are laws against citizens' lying to the government. I think the reverse should be true, but when you're the government, you've got a different set of rules."

One of the Longs' other projects is digging out information about the IRS's new, $600-million computer system. The system is scheduled to be finished in 1984, "which is kind of symbolic," Phil Long notes. "There must be information on it somewhere. It would make interesting reading. We're not saying it is a bad thing—we just think the American people have a right to know about it. . . . If people fear and dread a major branch of our government, shouldn't it be out in the open?"

Patrick Cox is a free-lance writer. He has a B.A. in economics.

arts & letters

movies

Thief

Breaker Morant

Altered States

Reviewed by John Hospers

• IN FILMS OF PREVIOUS DECADES, NO matter how agonizing the struggles the good guys had to go through, or even how many of them got killed along the way, they or their cause always won out in the end. Indeed, the Hayes Code demanded such an outcome. Then in the '60s, things began to change: either the bad guys got away with it (nothing bad happened to them at the end), or they were actually treated as heroes, or, more frequently, you couldn't tell the goodies from the baddies in the first place.

In the current film **THIEF** the situation is a bit more complex. The goodies do win out and the baddies get their comeuppance, but the goodies are baddies themselves, only not quite so bad as the real baddies. Everybody is so bad that the audience cheers when the real baddies are wasted away and also when the not-quite-so-baddies triumph. James Caan plays the part of a professional thief who will stop at nothing to get those millions of dollars' worth of other people's property out of that vault. But he's no ordinary thief, he's got morals: he won't rat on his friends; he gives others what he has agreed to and expects the same of them; and when they don't fulfill their contractual obligations, hell has no fury like a cheated thief. He doesn't care whom he robs, but he must do it according to certain Kantian principles; and as for his wife, she doesn't care if he robs for a living either, as long as he loves her and provides for her in the style to which he has accustomed her, which is decidedly un-Kantian.

It is somewhat amazing that this seedy plot and the raunchy gallery of characters can produce such an absorbing film, but they do. The merit of the film lies not in its story line, nor even in the acting (which is good enough), but in the im-

aginative use of cinematic techniques—the constantly moving camera, the fit between the story and the background music, the mood pictures of Chicago in the rain, the atmospheric milieu. Students of cinema will find it sufficiently imaginative to be worthy of their attention; students of morality will find it a study in quasi-heroism cast in a frame of unrelieved decadence.

• AS ALL AUSTRALIAN FILMS SEEM TO BE these days, **BREAKER MORANT** is an extraordinarily well done motion picture. The writing has a keen biting edge that is missing from most American productions. The acting, the rhythm, the pace, the cutting away from one scene to another, the steady build-up to the climax, are dramatic and exhilarating. Besides all that, it has something to say.

It's about a historical incident in the South African Boer War of 1901. Australian volunteers have joined the British to defeat the Boers (Dutch); but since they have to live off the land, they cannot sustain prisoners. Unofficially the word comes down not to burden themselves with prisoners but to shoot them, but officially such a practice is forbidden. When a small contingent of Australians do it (having seen their British superiors do it), they are charged with murder, and at the trial the British will not admit the existence of any such practice. (Admitting it might arouse the Germans to enter the war on the other side.) And so the Australians are caught in between, for doing what others were doing but nevertheless disobeying "official" orders. To ensure the concealment of the truth, Lord Kitchener orders that the death penalty be pronounced on the prisoners.

In this film the Australians are innocent pawns in the system of British military "justice"; and since Breaker Morant has become a posthumous folk hero in Australia, the enthusiasm down under for this film is quite understandable. The British are depicted as doubly villainous—first for railroading their own colonials to save face, and second for undertaking a war against the Boers, who were only trying to retain control of the farms they had carved out of the wilderness.

Perhaps it is not superfluous to add, and some Australians have not been hesitant to mention, that what Britain did then was not dissimilar to what Australia itself did in 1980 when it sold out the New Hebrides to retain its economic "guardianship" over the islands. It is easier for one government to deal with another government, however repressive, than to deal with individuals who prefer to deal with other individuals as free traders on a free market, without the intervention of any government. Perhaps one day they will make a film about this also, and perhaps they won't wait till 80 years after the event to do it, as with *Breaker Morant.* Posthumous indictment of the guilty and posthumous exoneration of the innocent are all very well, but justice is better served (though politics sometimes is not) by setting the record straight at the time it all happens.

• IT'S ALL DONE WITH THE TRAPPINGS OF scientific investigation by professors with Ph.D.s, and for all I know much of what is reported about the experiences of **ALTERED STATES** while one is immersed in a tank of water in total darkness with complete sensory deprivation may be accurate. But after the scientific credentials have been "established," most of what occurs in the film is not fact but fancy: for example, that a four-hour immersion in a tank could cause hair to grow all over one's body so that one looks and acts like an ape is about as credible as that the same immersion would enable one to fly like a bird or turn into a pumpkin.

As always with director Ken Russell's pictures, the viewer is subjected to a continuous bombardment of visual and auditory sensations of astounding variety. In this respect the film is a spinoff from the same director's *Tommy.* But as for the story line, there really isn't very much of it. Having been saturated with a variety of images that don't make all that much sense when put together, the viewer leaves the theater wondering what it has really all been about. The sensory deprivation of the protagonist has been overcompensated by the sensory oversaturation of the viewer. But after the sensory bombardment is all over, one has the definite impression of having been cheated: the viewer's senses may have been stimulated to the limit of their tolerance, but his mind has been left almost totally blank.

John Hospers is a professor of philosophy at the University of Southern California. His special interest is the area of aesthetics.

books

South African Saga

The Covenant.
By James A. Michener.
New York: Random House. 1980. 873 pp. $15.95.

Reviewed by Frances Louw

James Michener's latest epic novel, *The Covenant,* sets out to tell the story of South Africa. It is a detailed and mostly fascinating history of a country whose tumultuous past leads inexorably to its difficult present. The imaginary incidents described in the book are based on and interwoven with actual incidents. Thus the adventures of three families—one Afrikaans, one English, and one black—are traced through 10 generations. These families interact with a rich variety of people, including the local Hottentots and Bushmen, slaves from Malaya, Ceylon, Madagascar, Angola, and Java, and French and German settlers. Individual personalities do not feature on the pages for long, and their characterization is neither complex nor subtle. They are representatives, rather, of the cultural and racial groups whose mingling led to the current complex situation in South Africa.

Michener maintains remarkable objectivity as he deals with the lives and actions of these people. He observes both their strengths and weaknesses and succeeds in painting a vivid picture of the circumstances from which these qualities arose.

The scene is set for the eventual arrival of various groups of European settlers by a description of Bushman life 13,000 years ago and the adventures of a young black man from a small tribe south of the Limpopo in the middle of the 15th century. Owing to lack of documentation, Michener relies largely on imagination in this section, which has distinctly Hollywood-style overtones. Fortunately, when Michener embarks on the arrival of the first Dutch settlers in the Cape, his writing is backed up by intensive research. The book becomes dramatically more plausible and remains so until near the end.

The book concentrates on the Afrikaner, and he is the hero of the main story. The members of the black family, who don't receive equal attention, are less convincing. The English are realistically handled but do not capture the imagination in the way that the Afrikaner farmers do.

First, a large number of influential whites, both Afrikaans and English, business people and academics, have become aware of the desperate need for

change. The dogmatic Afrikaans farmers Michener describes exist, but they are a minority. The mainstream of contemporary thought is that if South Africa is not to be a second Zimbabwe it is essential for the black, brown, and yellow peoples to share the rights enjoyed by the whites. Even the government has started moving in that direction. Much of the discriminatory legislation that Michener discusses as current has been repealed. For instance, the statutory reservation of certain jobs for whites in white areas is now practically nonexistent. It only affects approximately two percent of jobs and is being phased out completely. Large corporations are currently preparing their white workers for the day they will have black bosses. In addition, blacks now have a 99-year leasehold in black townships, and many restrictions on their rights to open a business have been lifted. There is talk of lifting the Mixed-marriages and Immorality acts, and infringements of these are largely ignored. "Whites Only" signs have disappeared from park benches, elevators, post offices, and liquor stores. Many theatres, restaurants, and other public places are now open to people of all races. All this is the thin edge of the wedge, but there are strong signs that, as fast as it becomes politically viable, the disadvantaged peoples of South Africa will be allowed more and more freedom.

It is interesting that Michener apparently equates political freedom with individual freedom. He does not observe, however, that repeal of legislation is far more important than universal suffrage. It is also surprising that he seems to take it for granted that South Africa should be the butt of the world's hostility. Blacks throughout Africa have, on the whole, significantly less individual freedom than those in South Africa. Yet strangely this passes unremarked, apparently because the governments that oppress them so severely are made up of people with the same color skin.

Since *The Covenant* has achieved so much popularity it may significantly affect the attitude of the Western world towards South Africa. What a pity the final picture lacks the breadth and sensitivity of observation that characterizes the bulk of the book.

Michener observes that these courageous and hardy Afrikaners were motivated constantly and primarily by a search for individual freedom. They originally trekked inland to escape the rigorous laws of the Campagnie, a consortium of businessmen who ruled the Cape. Subsequently the Cape was handed over to England, and again the Boers (Afrikaners) fled to preserve their own language, customs, and lifestyle. Michener does not mention here that most of the Voortrekker Republics had limited-government constitutions. What he does point out correctly is that they sadly never recognized that other people too might desire the freedom they pursued so ardently. Their bible told them that they were to be the masters of the promised land, and they were determined to impose this belief on the colored (people of mixed blood), Hottentot, and black peoples who surrounded them. Thus the seeds were sown for the conflicts of today.

It is unfortunate that Michener is weakest in the contemporary period that ends the book, since this tends to leave an impression that eclipses the excellent work that has gone before. At this stage the book is primarily concerned with the development of apartheid in the last 30 years and its consequences. All the incidents that make up the story here could have typically occurred in South Africa except for the court case of black leader Daniel Nxumalo, who is up for treason. Exchanges take place between Nxumalo, the judge, and the state advocate which are unlikely in the extreme. For instance, Nxumalo says, "In the great election of 1948 that threw Jan Christian Smuts out of office and brought your party in, that was against the wishes of white people. You might say you engineered a takeover, like the Communists in Czechoslovakia." State Advocate Scheepers replies, "That's a lie. We won that election fair and square." For the advocate to openly align himself with the government would be inadmissible in the South African law courts, as the judiciary is maintained in separation from the influence of the ruling political party. Whatever those men's personal allegiances may have been, the judge especially would have maintained strict impartiality.

Other incidents that describe personal tragedies that the blacks experience as the result of apartheid are more typical. However, the picture that arises—of violent black dissidents, hard-headed Afrikaners determined to follow their policies come what may, and a handful of concerned but ineffectual whites trying to assist the blacks in their plight—would be true if it were a description of South Africa in the 1950s and '60s. But Michener is talking about the late '70s. And in the late '70s and early '80s, the story has become somewhat different.

Frances Louw is editor of the South African newsletter The Individualist *and author of a forthcoming book on child rearing,* The Adult Test, *to be published by Books in Focus.*

Tool for Living

The Next Whole Earth Catalog
Edited by Stewart Brand.
New York: Point/Random House. 1980.
608 pp. $12.50.

Reviewed by Jack Shafer

The earth is whole, and you can stuff its basic parts into a catalog. This bright idea shined on Stewart Brand in 1968 as he flew home to California from his father's funeral. With the bad moon of Nixon on the rise, ghettos on fire, and the big muddy of Vietnam sucking hard, the American Dream was cracking up. The institutions that supposedly form our societal bedrock—the State, public schools, big business, organized religion—were all on the slide.

Against this darkness was an accompanying light that also shined on Brand. The breakdown of the old institutions obliged individuals either to reclaim their destinies by personally embracing all the problems that define our humanity or to allow themselves to be swept into the abyss with the old institutions. "Ask not what your country can do for you—do it yourself," was the motto. Brand assembled a compendium of worthy earthly tools to aid in the pursuit of personal destiny, christened it *The Whole Earth Catalog,* and unleashed it upon a needy world.

Wild success followed—celebrity for Brand, subsequent bestselling editions of the *Catalog,* the birth of the ongoing version of the *Catalog,* and *CoEvolution Quarterly.* It was not long before the Whole Earth concept had made it into the international lexicon.

In the '80s, the bedrock institutions continue their slide and are for the most part discredited. Excitement and innovation in our culture comes from what used to be relegated to the fringes: small businesses, libertarianism, self-help, and all the alternatives in medicine, energy, the arts, education, and architecture that fit in the Whole Earth. As the fringes join the mainstream and the old institutions plummet, what better time for a new *Catalog?*

The Next Whole Earth Catalog is nearly

80 percent new, and it even includes instructions on how to review it. Avoid reviewing the preface, admonishes Brand. Instead, consult two subjects in the *Catalog,* one you know something about and one of which you know nothing. Judge the *Catalog* by how well it covers your area of expertise and how intrigued you are by the article covering your area of ignorance.

Accordingly, I read the section on political factions and periodicals. The sectarian mess that is the American left is neatly laid out, separating the Trotskyites from the disciples of Mao and the rhetorical excesses of the *Workers' Advocate* from the meaningful *In These Times.* I follow the splits and mergers of the left with the scrutiny some fans lavish on baseball statistics. It took me years to sort out the left, and I've never before seen as concise a view of it as is presented in the *Catalog.*

Also in the political factions section is almost an entire page on libertarian periodicals. The Students for a Libertarian Society's *Liberty* is rated "thumbs up"; *Frontlines,* "riveting"; although, after noting the excellent UFW funding article and eclectic editorial policy that finds room for interviews with such diverse thinkers as Murray Bookchin and Howard Ruff, REASON is maligned as "Rotarian" and rated "eh!" But, all-in-all, the presentation of the libertarian alternative is accurate and fair.

I know nothing about blasting with explosives, but in a single page author Keith Britton of Blast Master, Inc., convinced me that, with a little reading and extreme care, I too could blast any heavily rooted stump that got in my way. Britton passes judgment on the variety of blasting-cap brands and the major texts on blasting. Well done.

The cloying cosmic giddiness that blemished earlier editions of the *Catalog* is gone, replaced by a child-like sense of wonder and adventure. There are still big sections on mysticism and drugs, but the new thrust is toward computers (12 pages), solar energy (14 pages), and space colonies (3 pages), while previous '60s' obsessions like communes, domes, and China have faded.

The *Catalog* remains a participatory venture, with readers and users from all walks of life contributing articles and suggesting tools. One gets the idea it was put together with all the loving care of a barn raising.

Physically, it is the most attractive edition yet. Brand and Company have finally learned graphic design and the fine points of layout; page numbers, subject headings, and heavy rules run at the top of the page now. The paper is better, the cover and binding more durable. And the contents are edited to be as breezy as a newspaper and as authoritative as the Final Word.

Brand gives reviewers further instructions: how good a tool is the *Catalog?* I doubt if I will ever raise rabbits, practice amateur insemination, hang-glide, homestead, batik, or battle cockroaches. For me the *Catalog* is a tool of imagination and entertainment. In Brand's Whole Earth there are over four billion ways to be human, and the *Catalog* is the best single celebration of that ideal. Hard-money advice coexists in these pages with the small-is-beautiful philosophy, Buddhism with guns, hydroponics with foraging. This humanistic passion for diversity and tolerance directs us away

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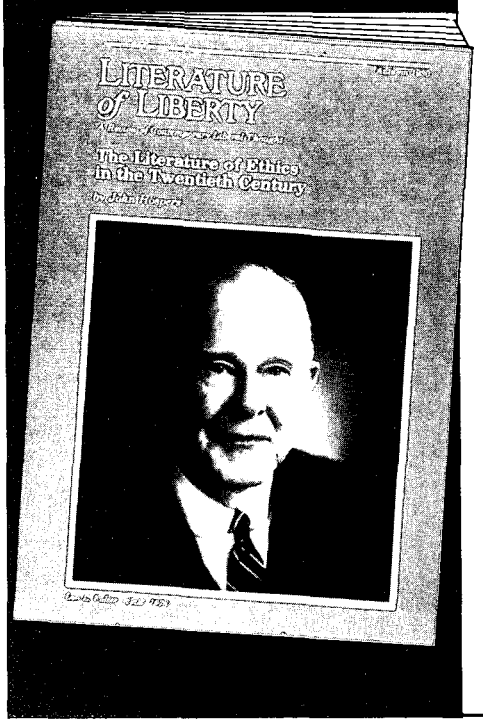

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At one point Brand compares economics to ecology, noting that we admire the balance of nature produced by the competition, suffering, and death in ecological systems and the optimum genes it produces. "In a market economy, it is mostly prices that suffer, die, and converge to optimums," writes Brand. It is to our good fortune that the ecology of the book market has resulted in *The Next Whole Earth Catalog* reaching a new optimum.

Jack Shafer is a free-lance writer and a contributing editor of the Libertarian Review.

Faith in Progress

History of the Idea of Progress.
By Robert Nisbet.
New York: Basic Books. 1980. 370 pp.
$16.95.

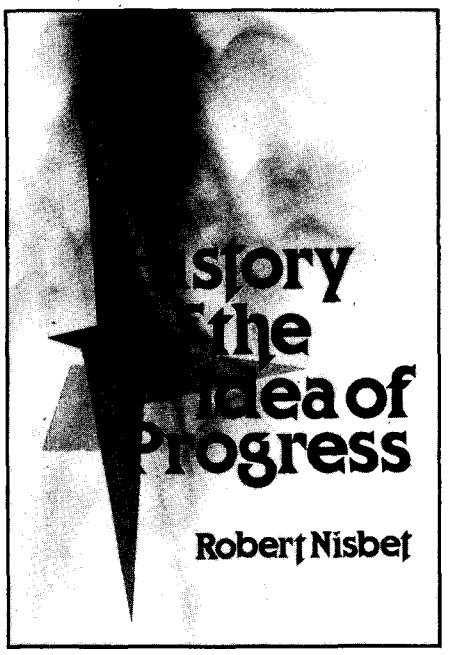
Reviewed by William Marina

Robert Nisbet once again offers the reader a glimpse of his encyclopedic grasp of the intellectual history of Western civilization. This volume covers, somewhat differently, much of the ground examined more than a decade ago in *Social Change and History*, and it certainly can most profitably be read in conjunction with *The Twilight of Authority* (1975).

The idea of progress as Nisbet defines it "holds that mankind has advanced in the past—from some aboriginal condition of primitiveness, barbarism, or even nullity—is now advancing, and will continue to advance through the foreseeable future." This advance includes not just knowledge narrowly defined but also mankind's spiritual and moral condition. Although its advocates have seldom felt the need to prove this assumption, Nisbet believes that on the whole the idea has done more good, led to more creativity, given more strength to human hope and the desire for improvement, than any other concept in Western civilization.

Part one traces the idea from the ancient world, through the rise of Christianity, the medieval period, the Renaissance, and up to what might be called the modern era of Western history. Part two contrasts "progress as freedom" on the one hand with "progress as power" on the other. Illuminating the former are some very penetrating discussions of the idea in the hands of Turgot, Gibbon, Adam Smith, the American Founding Fathers, Condorcet, William Godwin, Malthus, Kant, John Stuart Mill, and Herbert Spencer. For these writers, progress was essentially reflected in the emancipation of the individual from the control of the State. Among those of the opposite persuasion, Nisbet explores the writings of such thinkers as Rousseau, Saint-Simon, Comte, Herder, Fichte, Hegel, and Gobineau.

The bulk of Nisbet's own analysis about the future of the idea of progress is found in the aptly titled last chapter, "Progress at Bay." If the idea of progress now fails, it will be because of a loss of belief in its "crucial premises," he contends. These have been: "belief in the value of the past; conviction of the nobility, even superiority, of Western civilization; acceptance of the worth of economic and technological growth; faith



in reason and the kind of scientific and scholarly knowledge that can come from reason alone; and, finally, belief in the intrinsic importance, the ineffaceable *worth* of life on this earth." He cites a number of contemporary intellectuals whose works in one way or another question these assumptions.

After Nisbet's perceptive coverage of the history of the idea of progress, and his description of those factors accompanying the present crisis, the analysis of why we are in this situation and what, if anything, can be done to change these circumstances is somewhat disappointing. As in *The Twilight of Authority*, Nisbet rather hesitantly suggests that "the faint, possibly illusory, signs of the beginning of a religious renewal in Western civilization" will restore authority and a faith in the idea of progress. At times his own work is perhaps all too illustrative of the degradation of knowledge and decline of scholarship which Nisbet complains is characteristic of our age. Thus, as in several of his earlier works, it is difficult in some instances to know precisely from whence a quote—often lengthy—has been taken. Unlike *The Twilight of Authority*, however, an index has been included in this volume.

The major theme of *Social Change and History* was a criticism of the use of a biological metaphor—birth, youth, maturity, decline, and death—as a deterministic explanation of the cyclical view of history. An unyielding faith or belief in progress, however, is but the other side of that outlook. The notion of the spiral view of history, which Nisbet does mention without much comment, is an attempt to combine recurring cycles of rise and decline with the idea of progress. Some might think it a rather bad choice of alternatives that Nisbet, having dismissed determinism, calls for a restoration of faith as the underpinning of progress. Determinism is thus replaced by predestination!

There are other options and bases for causation and analysis that Nisbet does not appear to consider and that suggest free will and human liberty, a few examples of which must suffice here. In his *Evolution of Civilizations*, Carroll Quigley noted that civilizations develop in the first place because of the discovery of some new instrument of expansion which generates a surplus. Because of the ensuing bureaucratization and governmental expropriation of this surplus, the discovery of a new instrument of expansion has been far more effective in rescuing the civilization than either reform or revolution, which, as Jacques Ellul has indicated, tend to become statist in character. As the brilliant research of Jean Gimpel, among others, has shown, Western civilization, contrary to the usual progress model, has already undergone one rise and decline in its development. Furthermore, as L. S. Stavrianos has demonstrated, "dark ages" have traditionally been creative periods of growth. The real uniqueness of the West lies in the fact that no power has been able to establish a universal empire over it.

It would be foolish to be blindly optimistic about the future since progress is not foreordained. On the other hand, the "faint, possibly illusory, signs" of a religious renewal by an essentially conservative thinker such as Nisbet is just that: illusion, in terms of offering any real hope for liberty. In all the floundering and specialization of science, however, what is unmistakable is the gradual emergence of a new synthesis of natural law, which transcends traditional disciplinary lines and modes of thought. Thus, for example, Vernard Foley explains that the core of Adam Smith's worldview derived from the pre-Socratics, while the physicist F. Capra compares the ideas of some of the sophists with the Taoists and points out the similarities with conceptions of modern physics. All of which is to suggest that progress is not so much "at bay" as in one of those exciting periods of anomaly and change, often thought of as "dark" by those of a more orderly and conservative temperament.

William Marina is a contributing editor of REASON *and teaches in the College of Business and Public Administration at Florida Atlantic University.*

Preventing High-Tech Crime

Technological Terrorism.
By Richard C. Clark.
Old Greenwich, Conn.: Devin-Adair.
1980. 214 pp. $10.00.

Reviewed by John Caldwell

This book is another in the growing literature about the threats posed by high-technology terrorism. What distinguishes Professor Clark's contribution from the rest is his assertion that mass doomsday terrorism is inevitable in the United States and the West "without some form of crisis government." The gravity of the threats that can be unleashed by terrorists in possession of superviolent technologies is so severe, Clark contends, that "ultimate" constitutional remedies may be required to enable the effectuation of crisis government. That such remedies are nowhere clearly specified in his book is the most revealing indication of how little of substance the author has to say. *Technological Terrorism* is at best an interesting polemic.

This observation is not made lightly, since a substantial volume of information is presented. Indeed, nearly 90 percent of this 214-page book consists of a "dump" of many of the well-known nuclear, chemical, and biological horrors of which the modern terrorist is capable in theory. Despite a lengthy description of such threats, replete with 176 citations ranging from the *New York Times* to *Gallery*, there is no coherent analysis of the physical security problems raised by the introduction of nuclear weapons and power plants, computers, water distribution systems, liquefied natural gas tankers and processing terminals, and other complex energy systems. Yet the flyleaf of the book advises the reader to expect "hard facts and figures" that support the author's warning of the "imminent threat to our lives and liberties if our government and its agencies continue to lag in taking and enforcing active measures of security."

To be sure, the reader will learn, for example, that a 1976 General Accounting Office study concluded that many of the federal government's 9,000 computers were insufficiently protected against sabotage, vandalism, terrorism, or natural disaster and that between 1966 and 1975 there were at least 21 incidents in which individuals or groups

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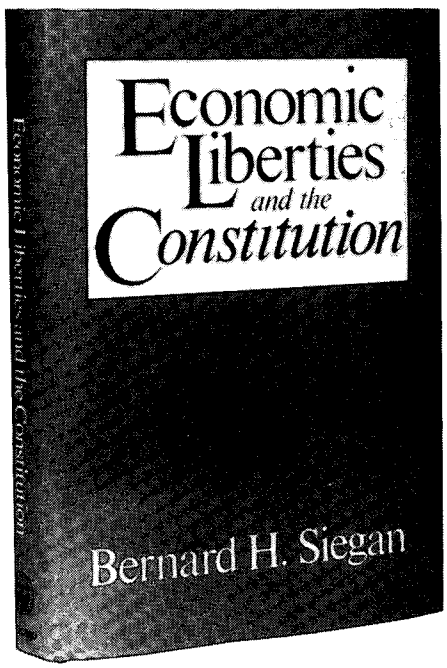

ECONOMIC LIBERTIES and the CONSTITUTION

Bernard H. Siegan

In this challenging book, Siegan declares that, if the Supreme Court were doing its job as the Framers of the Constitution and the Fourteenth Amendment intended, the nation would be much less burdened with excessive economic regulation. He points out that, while the Court is zealous in terminating state laws that threaten free expression, sexual privacy, or religious observance, since the 1940s it has done nothing about laws that limit the right of individuals or private corporations to engage in legitimate economic activities.

The result has been to give governments at all levels much greater power over the economic system and to harm society by inhibiting production, raising prices, curtailing competition and creating unemployment. Those most often harmed, concludes Siegan, are those who were supposed to be protected – people on the lowest rung of the economic ladder. 383 pages. $19.50

The University of Chicago Press
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allegedly attacked a nuclear facility. The point to be made in mentioning these observations is not to dispute their authenticity but to demonstrate that these two types of threats call for very different types of physical security capabilities. The former involves the development and implementation of both software and hardware to prevent unauthorized access to secured data, whereas the latter involves the deployment of highly reliable detection systems and security forces well trained in the use of deadly force. Although selected from the book at random, these two examples suggest how diverse the problems are for the crisis government Professor Clark asserts is so long overdue.

His prescription is presented in the final 26 pages of the book. He alludes with seeming approval to some passages in a report of the "National Advisory Commission" (sic), apparently the National Advisory Commission on Criminal Justice Standards and Goals *Task Force Report on Disorders and Terrorism* published in 1976, which purportedly recommended legislation that would "permit disruption of the activities of suspected [presumably terrorist] groups, maintenance of computerized files on suspects, warrantless searches and preventive detention." How the elimination of such key constitutional safeguards as those embedded in the Fourth and Sixth Amendments would remedy any of the security problems he discusses in the preceding 188 pages of his book is left for the reader to surmise.

Clearly, the physical security problems of protecting the high-security, high-value assets of the modern industrial State are large, given the thousands of violent terrorist incidents that have occurred in the world over the past two decades. However, the suspension of the Bill of Rights and the promulgation of extraconstitutional "emergency legislation" that increases the scope of the State's police powers would not *ipso facto* deliver the desired solutions Professor Clark implies. There is still the problem of detecting if and when certain acts are terrorist, much less criminal, in intent. The police are not omniscient, even when granted vastly broadened investigative powers and methods (warrantless arrest powers, wiretapping, and the like). There is the problem of effective utilization of security technology. A sensor at a high-security facility that registers too many false alarms desensitizes even the most energetic guard force. There is the problem of security personnel proficiency. A security guard, untrained in the use of nonlethal weaponry or, when warranted, the use of deadly force is just as menacing to innocent third parties whether constitutional restraints are in force or not. These problems are among those that constitute the real research grist of physical security. Regrettably, they receive negligible, if any, attention. The author seems to be preoccupied with more weighty matters relating to the necessity for crisis government.

If Professor Clark's definition is tantamount to constitutional dictatorship, notwithstanding his attempts to stamp it with the scholarly imprimatur of Carl J. Friedrich's and Clinton Rossiter's books on constitutional government, then *Technological Terrorism* belongs to that genus of terrorism tracts where one can only exclaim: "This guy knows just enough to be dangerous."

John Caldwell is a research political scientist at Mission Research Corporation in Santa Barbara, California.

Paranormal Trickery

Flim-Flam!
By James Randi.
New York: Lippincott & Crowell. 1980.
544 pp. $14.95.

Reviewed by Jack Kirwan

A few years back, in response to the waves of mysticism, supernaturalism, and occultism washing over the Western world, an organization calling itself the Committee for the Scientific Investigation of the Paranormal was formed. Among its founders were Martin Gardner, Isaac Asimov, and a saucy, outspoken magician and escape artist named James (The Amazing) Randi. With the passing of time, Randi has earned something of a reputation as the field investigator (or hit man) for the committee, and his latest book is a fascinating account of his adventures in the murky valleys of the paranormal.

Randi is no shrinking violet, and *Flim-Flam!* is in no way a bland, dispassionate treatise. Randi has a crap-tolerance level of just about zero, and the book is written in tough, kick-'em-where-it-smarts prose—for example, "One would think that only children believe in Santa Claus, that witches are the delusions of rural bumpkins and that astrology is the delight of the senile. Not so." But *Flim-Flam!* is more than just a string of witty invective. Randi is a skilled researcher, and the essence of the book is a serious, documented look-see into the claims of and about such diverse people as Erich von Daniken, Edgar Cayce, Mahareshi Mahesh Yogi, and Uri Geller—as well as into dowsing, psychic surgery, UFOs, and other oddities. In every case, he ends up with a lot of flies and very little ointment.

The biggest problem in paranormal research is that while many investigators are trained in scholarly techniques and documentation, they are often woefully ignorant in the ways of sleight-of-hand, misdirection, and other tricks. A psychic demonstration which could be startling and mystifying to a layman—even one with a Ph.D.—could easily be old (silk) hat to a magician. In addition, there is all too often a strong and understandable will to believe on the part of many paranormal researchers. They are devoting years to finding proofs for their beliefs and *want* the experiments to be successful. Thus, they often leave the gate wide open to chicanery. Combine this with naiveté (as Randi shows, the field is saturated with gullibility), and you've got the perfect recipe for flim-flam. All too often, confronting true

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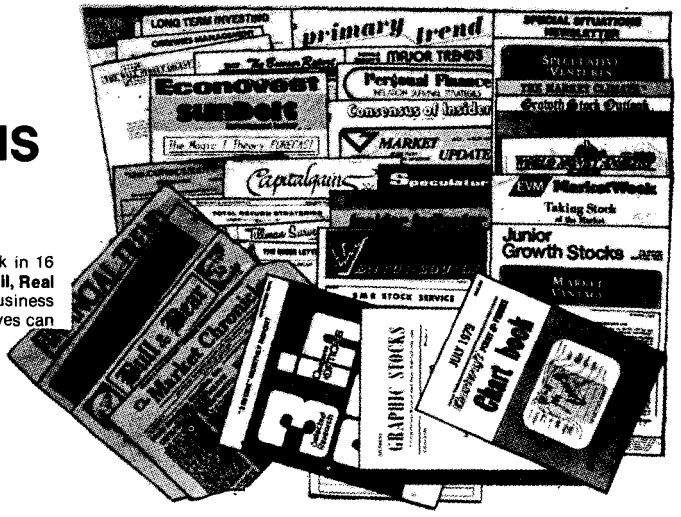

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believers with facts, reason, and logic is like tossing darts into a shadow—there is a built-in Catch-22 to all investigation. If a knowledgeable skeptic monitors a paranormal happening, the subject can always claim "bad vibes" or "negative influences," and the experiment is either scrapped or neatly alibied away.

Incidentally, Randi has offered (since 1964) a $10,000 prize to "any person who demonstrates a paranormal power under satisfactory observational conditions." Over 650 people have tried to win the money, but none has succeeded. Randi never states that paranormal phenomena are by definition impossible. But he does insist that, as with all science, the burden of proof is on the claimant.

Flim-Flam! is an interesting, useful, and immensely readable book. Not only because it blows the whistle on fakery and deceit (there is still hope—the latest *Whole Earth Catalog* now files Carlos Castañeda's Don Juan books under "Myth"), but also for Randi's positive attitude about the human race—you and me. He champions people *qua* people, not as marionettes of supernatural forces. "Throw away that Tarot deck and ignore the astrology column," writes Randi. "They are products offered you by charlatans who think you are not the marvelous, capable, independent being you are."

Jack Kirwan is a free-lance writer.

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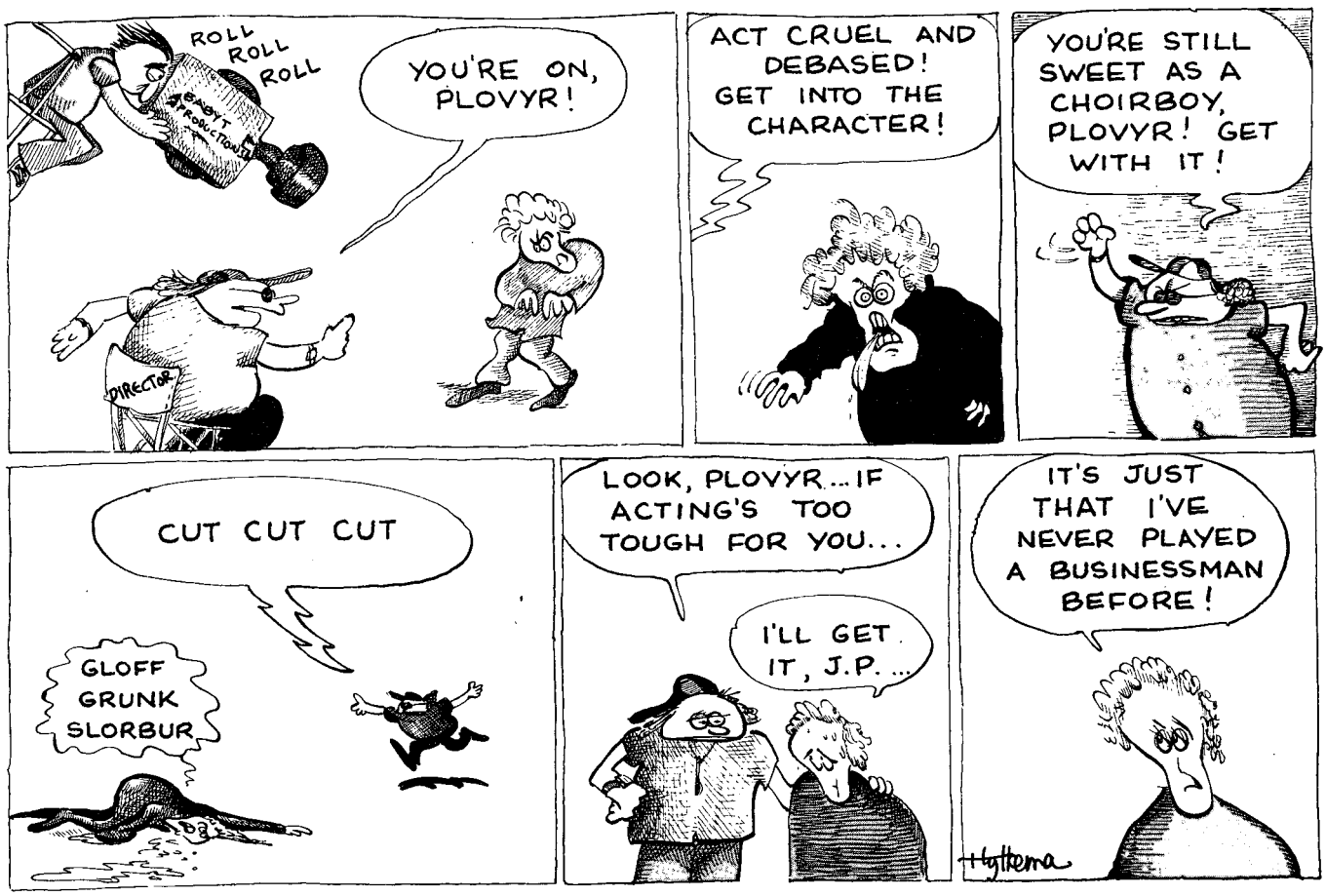
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Inflation is a form of national bankruptcy. Thus, the consequences of inflation — accelerating instability and volatility, confiscatory taxation, and bankruptcies — are devastating for investors and businessmen. As a result, many become victimized. As they do not have the knowledge and experience to cope with the problems of the new inflationary game, they fall further and further behind.

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THE FASTEST GROWING CHURCH IN THE WORLD

by Brother Keith E. L'Hommedieu, D.D.

It's quite safe to say that of all the organized religious sects on the current scene, one church in particular stands above all in its unique approach to religion. The Universal Life Church is the only organized church in the world with no traditional religious doctrine. In the words of Kirby J. Hensley, founder, "The ULC only believes in what is right, and that all people have the right to determine what beliefs are right for them, as long as they do not interfere with the rights of others."

Reverend Hensley is the leader of the worldwide Universal Life Church with a membership now exceeding 11 million ordained ministers of all religious beliefs. Reverend Hensley started the church in his garage by ordaining ministers by mail. During the 1960's, he traveled all across the country appearing at college rallies held in his honor where he would perform mass ordinations of thousands of people at a time. These new ministers were then exempt from being inducted into the armed forces during the undeclared Vietnam war.

In 1966 Reverend Hensley was fighting the establishment on another front. The IRS tried to claim the ULC wasn't a legal church and proceeded to impound the ten thousand dollars in the church bank account. The feisty Hensley filed suit against the IRS in federal district court for return of the funds and to permanently establish the ULC as a legal tax exempt entity. On March 1, 1974 Judge James F. Battin ruled against the IRS in his decision which stated, "Neither this court or any branch of this government will consider the merits or fallacies of a religion. Nor will the court praise or condemn a religion. Were the court to do so, it would impinge upon the guarantees of the First Amendment." The judge then ordered the IRS to return the impounded money and to grant the Universal Life Church its tax exempt status.

Reverend Hensley has stated that he believes a church is people and not just a fancy building. He also believes in total freedom and equality for all people. The ULC will ordain anyone without regard to religious beliefs, race, nationality, sex or age.

The ULC's success formula is both effective and unquestionably legal. After a person has become an ordained minister, he or she can join with two other people and form their own Universal Life Church. These three people then make up the Board of Directors consisting of a Pastor, a Secretary and a Treasurer. The ULC will then grant the group the use of its legal church charter complete with both federal and state tax exempt numbers. The newly formed church may then open a bank account in the church's name. Any member of the church can legally donate up to 50% of his or her outside income to the church and take a corresponding tax deduction. The church in turn can pay the complete housing cost of its minister including rent or mortgage payment, insurance, taxes, furnishings and repairs. The church can also provide the minister with full use of an automobile as well as pay for travel and educational expenses. None of these expenses are reported as income to the IRS. Recently a whole town in Hardenburg, New York became Universal Life ministers and turned their homes into religious retreats and monasteries thereby relieving themselves of property taxes, at least until the state tries to figure out what to do.

Brother L'Hommedieu is Chairman of the Board of Trustees of the Sacerdotal Order of the Universal Life and serves on the Board of Directors of the International Universal Life Church, Inc.

Churches enjoy certain other tax benefits over the common man on the street. For instance, a church can legally buy and sell real estate or stocks and bonds completely tax free. It can receive tax free income from bank deposits or mortgages. Many churches own large publishing, recording, or other related businesses like hospitals, clinics and schools without paying any income tax.

A church can sponsor any kind of fund raising event such as a concert, play or even bingo. Churches are also exempt from paying inheritance taxes. When the pastor of the church dies, the Board of Directors simply appoints a new pastor and the church goes on.

Reverend Hensley has stated that he personally doesn't believe in the tax exempt status of churches. However, if the government is going to give a free ride to Billy Graham and the Pope, then why not let everybody participate in these blessings. Furthermore, he backs his words up by offering to defend in court the tax exempt status of his congregations.

Since the church was founded in 1962, it has attracted members who are movie and TV personalities, businessmen, government officials, lawyers, and doctors as well as all types of regular working people. During the last 15 years the Universal Life church has blossomed into a full blown grass roots populace movement. Reverend Hensley is ordaining ten thousand new ministers a week and predicts that the church will have over 20,000,000 members by the early 1980's. In addition, requests for interviews and TV appearances continue to pour in.

Anyone who is a member of the ULC will tell you that the ULC is destined to change the world. By unifying mankind into a brotherhood of freedom orientated individuals, each respecting the other's right to live life as they see fit, the Universal Life Church hopes to put an end to all wars. Reverend Hensley admits that this is a pretty monumental task to accomplish, but he also points out that he is already well on the way to reaching his goal.

Rev. Hensley invites all those interested in becoming an ordained minister and receiving complete information and Minister's Credentials, to send a 10^{00} tax deductible donation to the Universal Life Church, 1335 Seabright Ave., Dept. **814**, Santa Cruz, CA 95062